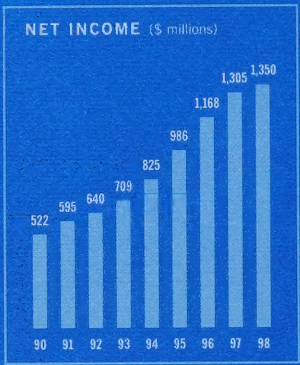
BANK OF MONTREAL GROUP OF COMPANIES

181ST ANNUAL REPORT 1998

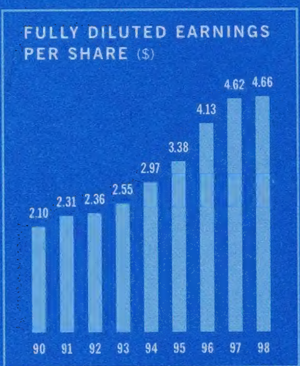
THE YEAR EVERYTHING CHANGED

Bank of Montreal

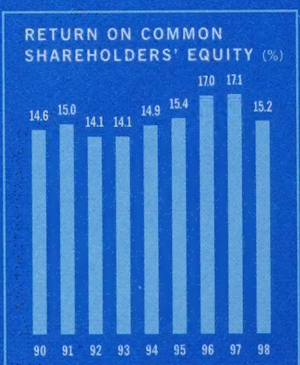
PERFORMANCE FOR 1998



Net Income up 3.5%

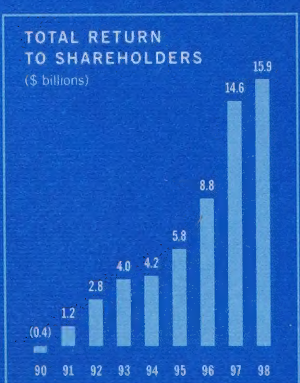


EPS of $4.66



ROE OBJECTIVE (15–17%)

ROE at 15.2%



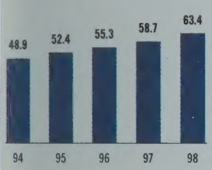
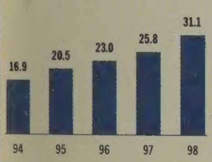
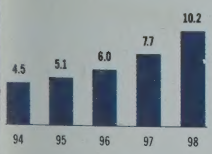
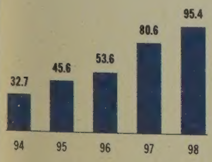
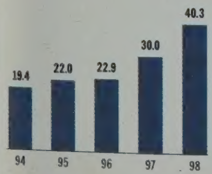
Shareholder Value up $1.3 billion

Powerful forces are transforming financial services around the world. Bank of Montreal responded strongly in 1998 with our proposed merger with Royal Bank of Canada. We were disappointed by the Canadian government's decision to reject the merger, but our well-developed strategic framework for value-based management shows us the way ahead. It will be good news for all our stakeholders and, especially, for our shareholders. As we go forward, all our initiatives must pass the test of creating new wealth by building on the businesses we do best.

BANK OF MONTREAL AT A GLANCE

	THE BUSINESS
Personal and Commercial Financial Services (PCFS) Bank of Montreal · Pathways · Bank of Montreal Capital Corporation · Private Client Services · The Trust Company of Bank of Montreal	Personal and Commercial Financial Services (PCFS) provides a full range of financial products and services to about six million Canadian households and commercial businesses, with an aim of achieving an appropriate value proposition for each relationship. Working with other Bank groups, PCFS meets the sophisticated demands of its clients as changing demographics cause a shift in focus to wealth management and retirement planning.
Harris Regional Banking HARRIS BANK	Harris Regional Banking is one of the largest community banking networks in Chicago and surrounding communities, and one of the premier mid-market corporate banks in the U.S. Midwest. The centrepiece of our U.S. strategy, Harris serves individuals, small businesses and mid-sized corporations, providing a comprehensive range of banking, trust and investment services.
Electronic Financial Services (EFS) Bank of Montreal · mbanx · MasterCard · cebra Intelligent Commerce	Electronic Financial Services (EFS) is a diverse group of businesses that use new technologies and channels of distribution to provide exceptional service to a wide range o clients. The group includes mbanx®, telephone banking, credit and debit cards, Cebra®† Inc., North American cash management, BMO Global Custody, and the Bank's interest in Grupo Financiero Bancomer.
Investment and Corporate Banking (I&CB) NESBITT BURNS · BMO NESBITT BURNS EQUITY PARTNERS · InvestorLine · JONES HEWARD · investorre	Together, Nesbitt Burns, Global Treasury and Trading, the Asset Management Services Group, the Merchant Bank and Global Corporate Banking provide a full range of products and services to corporate, institutional and individual clients. Key components include complete investment and corporate banking services, wealth management alternatives and a customized financial solution approach for all customer segments.
Portfolio and Risk Management Group (P&RMG) Bank of Montreal	The Portfolio and Risk Management Group (P&RMG) was formed in 1998. This group brings together under one umbrella the enterprise-wide risk management and corporat treasury functions along with corporate asset portfolio management, global financial institutions and governments and trade finance. A rapidly evolving global banking industry demands we develop new ways to assess business opportunities and manage the associated risks.

BANK OF MONTREAL IS A HIGHLY DIVERSIFIED FINANCIAL SERVICES INSTITUTION OFFERING A FULL RANGE OF PRODUCTS AND SERVICES IN ALL THREE NAFTA COUNTRIES. THESE ARE THE OPERATING DIVISIONS THAT MAKE UP THE BANK OF MONTREAL GROUP OF COMPANIES:

<table>
<tr><th>VOLUME* GROWTH</th><th>HIGHLIGHTS</th><th>STRATEGY</th></tr>
<tr><td></td><td>
- Grew the mortgage portfolio by 15% to $35 billion.
- Announced agreements with The Great Atlantic and Pacific Company of Canada Limited (A&P) and Canada Safeway Limited to open in-store branches.
- Opened 10 in-store locations in fiscal 1998.
- Implemented the Private Client Service Promise, providing one-stop banking and uniformity of services.
- Redesigned commercial credit approval system to provide sales and service capabilities.</td><td>
- Improve technology and access channels to enter new markets and reduce operating costs.
- Retain and grow customer relationships through improved knowledge management.
- Elevate workforce competencies in the area of customer service and sales management.
- Redesign key processes to deliver improved customer service.</td></tr>
<tr><td></td><td>
- Loan growth of 22% and growth in fee revenue of 39%.
- Double-digit growth in retail deposits – twice the market rate of growth.
- Retail market share in Chicagoland has tripled from 2.7% in 1994 to 8.2%.
- Consistently high customer satisfaction scores.
- Expanded trust services in Florida to full range of banking services.</td><td>
- Continue to expand our Midwest mid-market corporate franchise.
- Develop retail franchise to become a dominant force in the Chicago area.
- Grow wealth management business in the Midwest, Arizona, Florida and nationwide.
- Continue structural cost reductions through standardized processes and continued integration of North American operations.</td></tr>
<tr><td></td><td>
- mbanx achieved a 95% customer satisfaction rating and added over 50,000 clients for a total of 151,700.
- New Client Contact Centre strategy ensures the highest quality of service across different channels.
- Enhanced MasterCard®* web site allows customers to check balances and review transactions.
- Cebra's Internet-based tendering service MERX™* had strong growth and currently has 200,000 government tender documents on its web site.
- Formed an alliance between our North American Cash Management Group and CheckFree®[1] Corporation for automated clearing house processing, creating greater economies of scale.</td><td>
- Develop a deeper knowledge and understanding of our customers.
- Continually look for innovative applications of technology.
- Create customer-focused solutions through the leveraging of technology and client information.
- Create value through strategic alliances as a means of delivering the best customer service possible.</td></tr>
<tr><td></td><td>
- Maintained leading market share position in M&A advisory business, block trading of Canadian equities and top research ranking.
- Launched Nesbitt Burns Quadrant Program™[1] allowing clients to custom tailor their portfolios.
- Introduced Nesbitt Burns Mutual Fund Mosaic™[1], a mutual fund system that determines optimal asset mix.
- Rolled out investore® Mobile, a money management store on wheels.
- Participated in a significant number of large Corporate Banking transactions.</td><td>
- Solidify leading market share for specific investment and corporate banking activities in Canada.
- Align all functions to better meet customer needs.
- Expand Global Corporate Bank.
- Integrate and expand all wealth management products, services and channels.
- Develop enhanced derivative core competencies.
- Continue to grow the Merchant Bank.</td></tr>
<tr><td>
Note: including guarantees and standby letters of credit</td><td>
- Consolidated enterprise-wide credit, market, operational and liquidity risk management to optimize our risk and return profile.
- Finalized the segregation of the management of assets originated from our Global Corporate Banking Group to Asset Portfolio Management.
- Completed a US$3 billion collateralized loan obligation.
- Collateralized Bond Obligation Group ranks among the largest high-yield managers in Canada.
- Integrated Trade Finance with Global Financial Institutions and Governments.</td><td>
- Establish a "best in class" Risk Management Group.
- Asset Portfolio Management Group to pro-actively manage corporate assets, using state-of-the-art portfolio management methodology.
- Continue to grow collateralized bond obligation portfolio during fiscal 1999.
- Provide value-added sales and distribution services for Global Financial Institutions and Government clients and grow Trade Finance businesses with North American importers and exporters.</td></tr>
<tr><td>*Average assets ($ billions)</td><td></td><td></td></tr>
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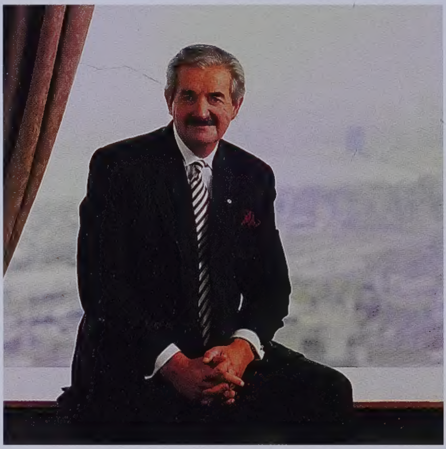
THE YEAR EVERYTHING CHANGED

CHAIRMAN'S MESSAGE



Our Annual Report's theme this year makes a dramatic claim, but one that has been well justified in the event. On January 23, 1998, we announced our agreement to merge with Royal Bank of Canada, long one of our most important competitors. Under Canadian law such mergers require the approval of the federal Minister of Finance. Shortly before this Report went to press, Finance Minister Paul Martin announced that he would not approve our proposed merger and that the government would consider mergers between major Canadian banks only after extensive legislative and regulatory changes. Enacting the necessary legislation will require at least one year and more probably two. Our merger proposal has therefore been terminated with the agreement of both banks.

Despite this disappointing outcome, the proposed merger made 1998 truly a year when everything changed for Bank of Montreal. We said a firm good-bye to our past by choosing a legitimate, effective and comprehensive response to the forces that are creating a new financial universe worldwide. I have mentioned those forces often in earlier Annual Reports, and some of them are discussed later in these pages: globalization, the continuing integration of world markets; profound demographic currents that are transforming patterns of demand; customers who are becoming steadily more knowledgeable and exacting. Running through everything is the digital revolution in information technology, shrinking space and time and creating financial products and customer expectations that were unimaginable only a few years ago. Together these forces are an irresistible tide that will sweep away institutions unable to find an effective response to them. In our best judgement the merger was the option most likely to bring substantial benefits to our customers, employees and shareholders within a reasonable period of time. Now that

the decision to reject the merger has been made, however, there can be no going back to "business as usual" for Bank of Montreal. Finding the most effective response to the forces of change will now, more than ever, be our first priority.

Business as usual is not an option because in Canada the financial services business is not being done as usual. It has been apparent for some time that, sooner rather than later, the ongoing transformation of the global industry would bring greatly intensified competition in our home Canadian market. In the last two years such competition has become a reality, as approximately a dozen major U.S. and European financial institutions have begun operations in Canada. Among them are some of the largest full-service banks in the world. Others are "monoline" companies, specializing in a single product such as credit cards or home mortgages, and often having more assets in that single product line than all the Canadian banks together. As yet the market share of the new arrivals is modest, but it is growing rapidly. We see little point in waiting until this new competitive battle is half-lost before we start to fight it.

This pressing need to be prepared for a more demanding marketplace has led us to develop a new, exciting and comprehensive strategic framework for managing our Bank. Its key concept is to maximize shareholder value by organizing the Bank into lines of business, each focused on a defined group of customers, each with its own strategy, each competing for its capital base and each responsible for earning returns significantly above the cost of the capital it employs. We call this framework "value-based management" and work has been underway on it for several years. We believe it will enable us to match any competition in our chosen lines of business, to realize the unused potential of our capital, skills and reputation, and thereby to earn truly superior returns for our shareholders.

"THERE CAN BE NO GOING BACK TO BUSINESS AS USUAL FOR BANK OF MONTREAL. FINDING THE MOST EFFECTIVE RESPONSE TO THE FORCES OF CHANGE WILL NOW, MORE THAN EVER, BE OUR FIRST PRIORITY"

At the same time, value-based management does not mean, as is sometimes thought, that the interests of our customers, employees and the communities we serve will take second place to the interests of shareholders. The experience of the highly successful companies that have already adopted the value-based management strategic framework shows that the reverse is true. Companies that succeed in creating value for their shareholders are those that best serve all their stakeholders over time. This is extremely important for Bank of Montreal. We take our obligations to our customers, employees and communities very seriously and for us, one of the key attractions of value-based management is that it harmonizes the interests of all our stakeholders.

What value-based management does mean is that we will accept the discipline of a single ruling principle in our decision-making and in measuring our performance. When it is fully up and running, Bank of Montreal will be not necessarily a smaller institution – personally, I think it may well be larger – but certainly a more focused and selective one. We will invest in what we do best, as judged by consistent and quantifiable standards. We will not continue lines of business that have no real prospect of earning an adequate return within a reasonable time. In everything we do, we will remember

"COMPANIES THAT SUCCEED IN CREATING VALUE FOR THEIR SHAREHOLDERS ARE THOSE THAT BEST SERVE ALL THEIR STAKEHOLDERS OVER TIME"

that our first responsibility to all our stakeholders is to create wealth, not destroy it. Thanks to our early start and to much intense and detailed work by many people, planning for value-based management is already well advanced. We will begin to make it operational in 1999.

. . .

The past year saw Bank of Montreal employees support our merger strategy by writing letters to MPs, taking part in talk shows and organizing highly successful rallies in the streets of cities across Canada. I believe they did these things because they knew better than anyone that 1998 was a year when everything changed, a watershed year for Canadian banking, when the status quo ceased to be an option. Their active participation in the merger campaign, however, was only part of a truly exceptional performance. In the face of intensifying competition and widespread market turbulence, all compounded by the many uncertainties of the eleven-month merger saga, our people once again achieved record earnings for Bank of Montreal, extending our winning streak to nine consecutive years. They continued to build the relationships with our customers on which our future depends. Add it all together and you can see that Bank of Montreal people are a special breed. It is this strong, committed group of highly skilled employees that will make a success of our value-based management framework. My warmest thanks go to them all.

The whole merger debate, with its unprecedented public focus on a business decision by private-sector corporations, bore witness to the continuing and pervasive importance of financial services on the Canadian scene. During the 181 years Bank of Montreal has been in business, we have done our part to shape the Canadian idea of a bank. Banks that are partners with Canadians in almost all their enterprises, be they large or small, commercial, public-sector or voluntary. Banks that are safe, sound and trustworthy, and at the same time, innovative and technologically advanced. Banks that may not always be loveable, but are active and responsible supporters of countless good causes in every community they serve. Banks that are present everywhere in this vast country, whether in "bricks and mortar" on the corner, in a supermarket or wherever there is a telephone. Banks that are, in a word, integral to the Canadian way of life. As we chart a dramatic new course in 1999, this heritage will be a challenge and also an inspiration, as we continue to adapt the best of the past to the demands of the present.

M.W. Barrett

Matthew W. Barrett
Chairman and Chief Executive Officer

A DIFFERENT WORLD

Evolutionary biology teaches us that animals either adapt to changes in their external environment or disappear. This basic truth is often misrepresented by social critics, who talk about business strategies in terms like "Darwinism" or "the law of the jungle." The reality is that successful businesses not only adapt to changes in their environment, they anticipate change and help to drive change through the development and delivery of new products and services.

The following essays discuss some of the major forces of change affecting this Bank, and all companies, as we race into the future.

VIRTUAL REALITIES

by DON TAPSCOTT

IT IS NO EXAGGERATION TO SAY THAT WE ARE IN THE TURBULENT EARLY DAYS OF A TECHNOLOGICAL REVOLUTION THAT MAY SURPASS ALL PREVIOUS REVOLUTIONS – THE PRINTING PRESS, THE TELEPHONE, TELEVISION, the computer – in its impact on our economic and social lives.

The tiny, ubiquitous microprocessor is penetrating thousands of inert objects, as everything from calendars to milking machines become "smart" communicating devices. Doors in hotel rooms are networked to the front desk and to security systems. Tires in logging trucks are linked by satellite to computers that track weather and road conditions, enabling a tire to adjust its inflation level as it moves along. Cars have become information appliances – the average car has many times the computing power of the Apollo 13 spacecraft, and General Motors (GM) today ships as much computing capacity as IBM. Chips will soon appear in clothing and soap boxes, enabling manufacturers to deliver new services to customers. And the personal computer my 12-year-old son just purchased with his savings has 750 times the capacity of the multi-million-dollar mainframe that filled the data centre of my first employer 25 years ago.

Increasingly this computing power is connected through the vast network of networks that is the Internet. The Net is growing in speed as bandwidth expands at a rate of 1,000% per year. To use the information highway analogy, this is taking us from a garden path to a superhighway a mile wide over the next four years.

Every institution in society is being transformed. New business forms are emerging as Electronic Business Communities (EBCs) destroy the traditional firm in many sectors.

For example, in retail, eBay.com has more than 900,000 auctions currently underway on the Net, where buyers and sellers meet in a global electronic version of a Greek agora marketplace. The company's initial public stock offering (IPO) was subscribed instantly and its stock price tripled on the first day. Almost overnight, the company had a market capitalization of more than US$3.3 billion.

In manufacturing, virtual factories are replacing the integrated industrial organization. The network product company Cisco Inc. has become a multi-billion-dollar powerhouse with a market capitalization of more than US$100 billion – US$7 million per employee, compared to US$72,000 per employee for GM. When manufacturers disaggregate their value chain and partner with others on the Net to co-design and manufacture products, they crush their competitors and create new business opportunities for partners.

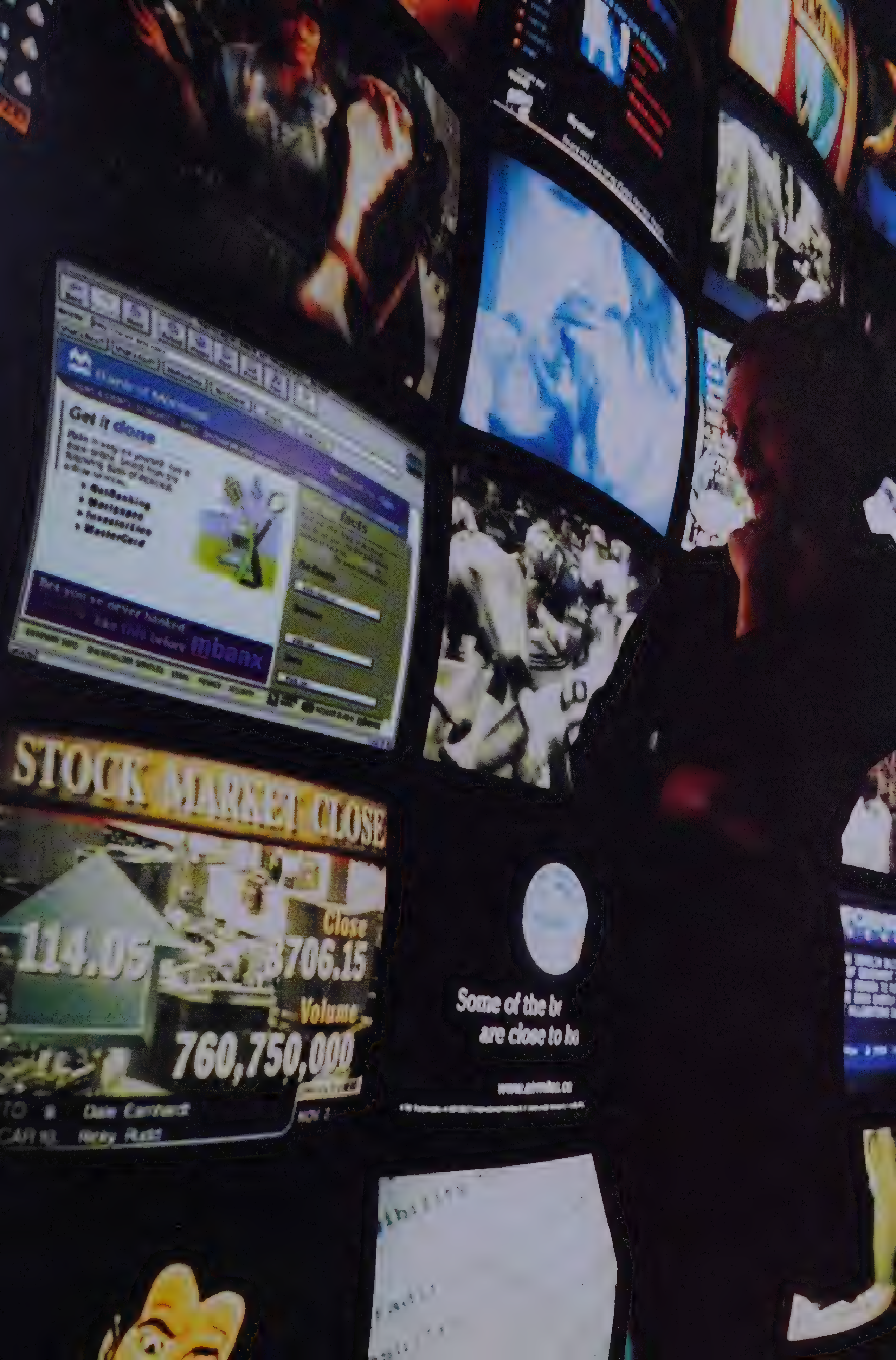
In financial services, on-line brokers combine the strengths of many companies in EBCs to deliver investment services to millions of customers. Banks, insurance companies and others combine services on-line and across borders to deliver the financial services supermarket to customers around the globe. By the end of the year 2000, close to 20% of families in Canada and the United States will do their banking on the Internet, representing close to one-third of profits in retail banking.

In the technology businesses themselves, the old order is falling. Telephone companies face a world with no long-distance revenue by 2005. Computer companies can no longer create value by making commodities, and shift to software and services. IBM's services revenue has grown from US$2 billion to US$24 billion in the past seven years. In 2005, IBM will be primarily a software and services company.

Broadcasters scramble to get ready for interactive television and radio. Entire sectors of the economy are being wiped out, and new ones are emerging. Because of networks, old intermediaries such as agents, brokers, wholesalers and distributors are giving way to the new. Microsoft's on-line travel agency Expedia®[3] had US$100 million in revenue in its first year. On-line insurance agents enable comparison shopping and the execution of insurance policies, causing havoc for traditional agents.

This is a time of great opportunity and great peril for Canadian firms and for Canada. On the digital frontier of this new economy, the players, dynamics, rules and requirements for survival and success are all changing. Evidence is growing that only those firms and societies which reinvent themselves will survive.

Don Tapscott is Chairman for the Alliance for Converging Technologies and a best-selling author. His books include *Growing Up Digital: The Rise of the Net Generation*, *Paradigm Shift: The New Promise of Information Technology* and, most recently, *Blueprint to the Digital Economy.*


Get it done
mbanx
STOCK MARKET CLOSE
114.05
Close
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Volume
760,750,000
Some of the b
are close to h

CAPITAL CHANGE

by DONALD COXE

DEMOCRACY HAS BEEN DESCRIBED AS THE WORST POLITICAL SYSTEM, EXCEPT FOR ALL THE OTHERS THAT HAVE BEEN TRIED. IT IS BASED ON THREE ASSUMPTIONS: FIRST, THAT A SYSTEM IN WHICH POWER IS BROADLY DIFFUSED WILL BE more stable and successful than a system restricted to elites or autocrats; second, that the average person is sensible enough to choose their nation's leaders; and third, that the system will offer voters some reasonable options based on widely disseminated information.

Is that a good model for financial services? We believe it is.

The story of the global financial services industry in the 1990s has been that democratization of the system works – mostly well – whereas elitism, authoritarianism and secrecy fail – sometimes horribly. As savers in North America and Europe found an increasing array of choices in financial products and an increasing range of financial information, they diversified their savings programs, moving away from excessive dependence on bank deposits and GICs. At a time when demographics favoured the growth of retirement savings vehicles, the mutual fund industry became the leading collector of personal savings because the diversity of its product lines let people make both short-term and long-term asset mix decisions. By early 1998, Canadians had more invested in mutual funds than in GICs – for the first time ever.

In contrast, most financial systems in Asia and Eastern Europe that were based on elites and autocracy have collapsed, wiping out the savings of generations. When a new form of financial challenge – deflation – was spawned in the long Japanese bear market, the ruling elites in the new economies and new capital markets of Asia were unable to adapt, and the consequences proved catastrophic for more than a billion people who had worked hard and saved heroically.

1998 was the year in which governments, central bankers, politicians and investors had to rethink their tactics and policies in the light of global secular deflation. This new challenge to price stability broke out spectacularly after Thailand was forced to abandon support of its currency. That breakdown triggered currency collapses across Asia, which sent those dynamic economies reeling. Falling currencies, falling commodity prices and falling stock markets became the pattern in 1998, particularly after Russia defaulted on its loans.

The good news for investors was the surge in bond markets in the industrialized nations. Investors who had assumed that bonds would slump when the U.S. economic recovery extended into its eighth year were surprised when falling inflation triggered a powerful bond rally that produced inverted yield curves in Canada, the United States and Britain.

Bond mutual funds handily outperformed equity funds, for most of 1998, which demonstrated anew the value of diversification.

This is the first economic cycle in which a majority of North American investors have been able to get the information and products needed to make them feel comfortable about actively allocating their savings among a wide range of vehicles.

Although the setback in equity markets has bankrupted some high-flying speculators and unnerved many professional investors, most people who began buying mutual funds in this cycle have not abandoned equities. They learned about reward during the long bull market, and they are now learning about risk. Learning the first lesson is easy and pleasurable. Learning the second lesson can be difficult and painful.

As 1999 dawns, investors must learn about new risks, including Year 2000 computer problems and recessions or depressions across the developing world. However these forces play out, they will not drive personal investing back to the old ways. GICs have come back in popularity in recent months, not because they are all that is available, but because their high real rates of return and price stability are attractive portfolio features.

Diversity and individual freedom of choice have, for better or worse, for richer or poorer, become the new personal investing style. It is the worst personal savings system, except for all the others that have been tried.

Donald Coxe is Chairman and Chief Strategist for Harris Investment Management and Chairman of Jones Heward Investments Inc., the two money management groups in the Bank of Montreal Group of Companies. He is also a regular columnist for *The Globe and Mail.*

BUYING TIME

by LEN KUBAS

IMAGINE THAT WE HAVE A TIME MACHINE AND WANT TO GO SHOPPING FOR A FEW THINGS: A WINTER COAT, A REFRIGERATOR, THE LATEST BEST-SELLING NOVEL AND SOME SHAMPOO. AFTER WE'VE FINISHED BUYING ALL that at the local department store downtown, let's have a quick coffee in the cafeteria before the store closes at 6 pm. Welcome to 1969. A little over one generation ago, that's exactly how many Canadians shopped.

Today, we'd probably drive to the clothing warehouse store in the factory outlet mall, then to the power centre in the once-empty field to compare appliances at the big box electronics retailer, then motor over to the 24-hour supermarket for the shampoo, log onto the Internet to order the book and end our evening with a mocha latte at a premium coffee shop. Welcome to 1999.

Today's consumers are more demanding, and frequently place more value on convenience and saving time than they do on price. Recreational shopping has all but disappeared, replaced by destination shopping. Retailers are striving to make it easier and more convenient for time-pressed consumers to find what they want and purchase it quickly. With power centres and big box stores, convenience means having lots of selection and great prices in one big location, with stores open seven days a week and, increasingly, 24 hours a day.

Today, category killers – large stores specializing in a fairly narrow range of goods – dominate the retail landscape. They include Future Shop for electronics, Chapters for books and The Home Depot for home improvement materials.

But today's innovation is often yesterday's news. While Chapters' superstores were busy introducing Canadians to a dramatically different way to buy books, Seattle-based Amazon.com changed the landscape again by selling discounted books on the Internet. Chapters quickly caught up. More and more retailers are combining a regular "bricks and mortar" shopping outlet with an on-line shopping and informational experience.

As recreational shopping disappears, destination entertainment is becoming a more important part of retailing. We're seeing the growth of mammoth movie and game complexes, such as Famous Players SilverCity and SegaCity for video gamers. Many shopping malls are realigning their store mix, replacing underperforming retail space with higher-potential entertainment businesses, including theme restaurants such as Rainforest Cafe, because services, not goods, are where consumers are spending a greater proportion of their money.

One of the biggest factors driving the speed of change in retailing is the flow of information and the rise of the digital economy. The ability to collect, store, manipulate and move vast amounts of data electronically means that merchants can make decisions faster, respond to changes in consumer tastes more quickly and reduce the lag time between making an offer and receiving consumer feedback.

This information technology also puts power into the hands of increasingly well-informed consumers. People can shop, compare, obtain information, evaluate choices and make purchases faster and more easily than ever before – often without even leaving their homes.

What of the future of retailing in Canada? Let's set our time machine for 2009. An almost invisible electronic web will tie us closer to retailers than ever before. Intelligent appliances, including garbage cans with scanners, will know when we're out of an item and reorder it for us. We'll be debited automatically and the item will appear at our door like magic – all without us ever realizing it's happening.

Payment methods will be all or mostly digital. Smart cards that store electronic cash, or "e-cash," will be accepted by retailers everywhere, tendered by consumers for small-value purchases where they once used coins. E-cash, credit and debit may even be carried on a single microprocessor-equipped card – which also tracks retail loyalty program points and stores the consumer's personal information.

The future of Canadian retailing will increasingly involve computers, data, digitization, real-time electronic communications and speed. Some consumers might prefer to set our time machine, if one existed, to a simpler era. The reality is that tomorrow, the winds of change will become a force-five hurricane.

Len Kubas is the President of Kubas Consultants and a regular contributor to trade and professional magazines. He is also co-author of *Profitable Customer Service Techniques* and *The Future of Canada's Mass Merchants.*

GIVING BACK TAKING PART

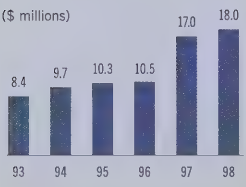
AT BANK OF MONTREAL, WE HAVE ALWAYS BELIEVED WE HAVE A RESPONSIBILITY TO BE ACTIVE PARTICIPANTS IN EACH OF THE HUNDREDS OF COMMUNITIES IN CANADA AND THE UNITED STATES WHERE WE DO BUSINESS.

This means more than giving money to charity. It means providing good jobs for thousands of people, paying hundreds of millions of dollars in taxes, buying billions of dollars in goods and services from local suppliers and creating a culture that encourages people to get involved. This is a look at what Bank of Montreal, and its employees, give back:

DONATIONS

Bank of Montreal is one of Canada's top five corporate donors, giving a total of $18 million to charity in 1998. Donations are made to over 2,000 different charities, with a particular emphasis on health and education, including 84 hospitals and 56 universities and colleges.

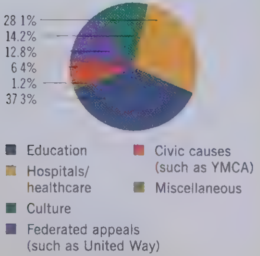
CORPORATE DONATIONS
($ millions)



Bank of Montreal employees gave another $2 million in 1998 through their fundraising efforts and personal donations.

Over the years, the Bank of Montreal Group of Companies has formed a number of long-term relationships with charitable organizations. Since 1994, for example, we have donated millions to the United Way, including $4.6 million from Nesbitt Burns, US$5.6 million from Harris Bank and $6.3 million from Bank of Montreal. Since becoming a founding sponsor in 1989, Bank of Montreal has donated over $1 million to Kids Help Phone.

WHERE THE MONEY GOES



PART OF THE COMMUNITY

Over 45,000 non-profit organizations, 562,000 seniors and 383,000 youth receive free banking plans through Bank of Montreal. Our branches also act as collection sites during emergency relief efforts. Combined with corporate contributions, the Bank collected over $375,000 during the 1998 ice storm and $818,000 during the Manitoba flood of 1997.

SPONSORSHIPS

Bank of Montreal is the principal sponsor of the Canadian Figure Skating Championships, as well as the Sectional and Divisional competitions. Our support extends to the Canadian Figure Skating Association's Learn-to-Skate programs, reaching more than 200,000 Canadians in 1,500 clubs across the country. Among its many programs, ranging from the arts to grassroots community initiatives, the Bank supports the Canadian Woman Entrepreneur of the Year Awards, the Stratford Festival, the Girl Guides of Canada and hundreds of others.

SUPPORTING EDUCATION AND STUDENTS

We have committed $12 million to post-secondary institutions across the country including over $7 million to provide scholarships and bursaries to students across Canada. Harris Bank supports two Illinois universities with pledges totalling US$200,000.

In addition, we provided over 960 computers to more than 100 schools and community organizations.

Bank of Montreal also matches the donations our employees make to their favourite universities and degree-granting institutions, for a combined contribution of over $1 million to date.

SHARING EXPERTISE

In 1998, a scholarship program designed for visible minority and aboriginal youth, as well as students with disabilities, enabled 65 Grade 12 students across Canada to work one day a week during the school year with Bank of Montreal. Upon graduation, the students receive a $1,000 scholarship to pursue their education.

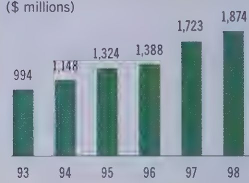
MAKING TIME

Many of our employees and virtually all of our executives and branch managers volunteer their time to thousands of charities, local boards and non-profit organizations. The Bank's Volunteer Grants Program provides $500,000 a year to the charities to which our employees actively donate their time.

PART OF THE ECONOMY

As one of Canada's largest companies, we spent nearly $1.9 billion in 1998 to purchase goods and services from thousands of Canadian suppliers across the country. Economists estimate that this spending contributes to the creation of about 30,000 jobs – many in small businesses.

CORPORATE SPENDING
($ millions)



SUPPORTING OUR CLIENTS

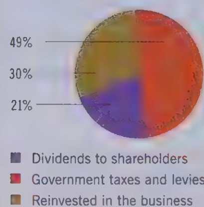
Every dollar taken in through personal and commercial deposits in Canada is lent back to individuals and businesses in Canada. Bank of Montreal provided $63.7 billion to individuals and small and medium-sized businesses in 1998.

FINANCIAL SUCCESS

Strong financial performance is good news to the millions of Canadians who own bank shares, our 33,400 employees who earned $2.6 billion in salaries and benefits in 1998, and all levels of government.

Earnings reinvested in the business go to technology spending, employee training and product development, among other things.

WHERE PROFITS* GO



*Net income before taxes and levies

THE YEAR IN REVIEW

PRESIDENT'S MESSAGE

It was a year of significant change, unrelenting competitive pressure and unusual market conditions – a year from which no major financial services firm in the world emerged untouched, ours included. It was also a year, I am pleased to report, that demonstrated the resilience of the Bank of Montreal Group of Companies.

We achieved our ninth consecutive year of record earnings in 1998 with net income of $1.35 billion, a 3.5% increase from the previous year. We achieved our ninth consecutive year of growth in earnings per share with fully diluted EPS of $4.66, up from $4.62. And, with return on equity of 15.2%, we achieved our ninth consecutive year of ROE above 14%, a record unmatched by any other Canadian or U.S. Money-Centre bank.

Our primary measure of success in maximizing shareholder value – the five-year annualized return on investment – was 23.3% in 1998, exceeding the Toronto Stock Exchange 300 Composite Index by 1320 basis points over the same period.

From a longer-term perspective, market capitalization grew from $3.8 billion at the beginning of 1990 to $16.7 billion in 1998, while common dividends paid out during the same period added up to $3.0 billion, for a total return to shareholders of $15.9 billion.

Revenues reached $7.27 billion in 1998 due to volume growth primarily in the businesses serving personal and small and medium-sized business customers across Canada and in the U.S. Midwest. This sector enjoyed an excellent year, continuing to experience strong asset growth as a result of a favourable North American economy, product and service innovation and increased consumer demand.

For example, Personal and Commercial Financial Services in Canada achieved earnings growth of 19.7%, contributing $649 million to net income, while Harris Bank achieved earnings growth of 23.4%, contributing $229 million to net income.

This growth was offset in part by the effects of abnormal market conditions in the fourth quarter, leading to after-tax trading losses of $90 million and lower contributions from several institutional businesses and from our 16.2% equity investment in Grupo Financiero Bancomer, Mexico's leading financial institution.

While the unusual capital market conditions kept us from achieving our objective of 10% earnings per share growth, we continue to maintain this as our minimum target moving forward.

MANAGING TO MAXIMIZE SHAREHOLDER VALUE

Last year also presented unusual challenges for employees, notably the announcement

of our proposed merger with Royal Bank of Canada on January 23, and major investments of time and resources in preparation for the Year 2000 and the impending European Economic and Monetary Union (see page 53).

Employees carried on creatively throughout the year, however, working to implement these and other initiatives designed with one overriding goal in mind: the long-term maximization of shareholder value.

One of our most significant ongoing priorities is the line-of-business management approach that we are adopting as part of our move to generate greater shareholder returns in light of increased domestic and global competition.

While presenting a unified face to customers, this approach will require each line of business to develop its own strategies and compete with all the other lines of business for its share of capital. This will enable us to evaluate each line of business on its contribution to the creation of shareholder value.

There will be no cross-subsidization and there will be a decided bias toward high returns – and therefore high-growth lines of business. Defending and investing in the most profitable lines of business, while turning around or divesting the unprofitable ones, will use our shareholders' capital more productively.

By playing a leadership role in the integrated and cost-effective deployment of people, technology and process across all the lines of business, Emfisys™, the new technology and process division launched at the beginning of the fiscal year, will also contribute substantially to the maximization of shareholder value.

ADVANCING RISK MANAGEMENT

Among the most important, and most effective, of our ongoing initiatives is our embrace of risk management sciences, a platform for sustaining profitability and stable earnings even in times of economic downturn.

We set out 10 years ago to achieve a core competency in controlling credit risk through scientifically based portfolio management policies and practices and we subsequently

95% Customer satisfaction

mbanx achieved a customer satisfaction rating of 95% – a reflection of our ability to meet and exceed customer expectations.

We continued to redefine traditional branch banking in 1998 by opening branches in supermarkets, providing greater convenience and access for our customers.

applied the same rigour to liquidity, market and operational risk (see pages 43 to 48). In 1998 our core competency in credit risk produced our best-ever asset quality in two decades, with a provisioning ratio (the annual provision for credit losses as a percentage of average loans and acceptances) of 0.09%, an improvement from 0.23% the previous year.

We also won the recognition of our peers in a survey of North American banks that ranked Bank of Montreal among the top three on the continent when it came to employing portfolio management techniques to control corporate credit risk.

More important, we have set aside sufficient loan loss reserves to absorb the impact of a moderate downturn, and we have strategically minimized our vulnerability to troubled economies. We suffered no material losses in Asia last year, for example, and the same was true for Eastern Europe.

INCREASING FACE-TO-FACE SERVICE

Carrying on creatively in 1998 also meant increasing and improving both face-to-face and electronic customer access opportunities as part of our overall strategy to reinvent retail banking.

We increased and improved face-to-face service in Canada by opening 10 in-store branches and we reached an agreement with The Great Atlantic and Pacific Company of Canada Limited (A&P) and Canada Safeway Limited to place additional branches in supermarkets across the country. Along with on-site experts in personal financial services, these locations also feature enhanced automated banking machines (ABMs), interactive kiosks with NetBanking facilities, on-line access to AIR MILES®2 reward miles balances, and financial planning tools.

While in-store banking was new to us in 1998, we already had some in-mall experience: through our chain of investores, where we market a complete range of money management products and services in a retail setting;

and through our chain of Pathways Financial Growth Centres, where we help customers and potential customers explore, define and resolve their financial services needs in an interactive, friendly environment.

We established four more investore centres in 1998, along with our first investore Mobile, a money management store on wheels. We also established additional Pathways centres.

We arranged to bring face-to-face banking to people in parts of Canada that have never had such access before. Following a successful pilot project in Nain, Labrador, we signed an alliance agreement with Canada Post to cooperate in 20 more banking outposts staffed by specially trained Canada Post personnel.

In the U.S., Harris Bank increased and improved customer access – and access to customers – in a variety of ways, including expansion in the Florida market. By converting the former Harris Trust Company of Florida, with locations in West Palm Beach and Sarasota, into a full-service bank, we now have a deeper presence in the fastest-growing state in the U.S., with special plans to serve "snowbirds" from Canada and the U.S. Midwest.

EXPANDING ELECTRONIC ACCESS

On the electronic access front, mbanx increased and improved customer access and substantially grew its customer base to over 150,000 through a number of strategic initiatives including the launch of the "my view" service that enables clients to custom-design their web sites according to their individual needs and preferences.

We also continued to invest considerable resources in the state-of-the-art technological tools that enable employees to provide our electronic banking customers with a dramatically new level of personal service.

These technologies, combined with mbanx' value-based service, have led to visits from companies all over the world that consider mbanx to be best in class. I am also proud to report that mbanx achieved a customer satisfaction rating of 95% in 1998.

Harris expanded operations in Florida and now offers full banking services through branches in Sarasota and West Palm Beach.

To provide additional choices for a well-diversified, managed approach to investing, Nesbitt Burns introduced the Quadrant and Mutual Fund Mosaic Programs.

In order to improve our service to ABM customers, we installed more than 560 new InstaBank Extra® machines, which provide on-line access to detailed statement information.

We added new functions to our MasterCard web site, allowing cardholders to access secure Internet web pages where, among other things, they can check balances, review recent transactions and request increases in their spending limits.

In addition, our digital commerce service provider, Cebra Inc., formed a partnership with Canada Post to create a secure Electronic Post Office™[2] that will enable Canadian businesses and consumers to receive all types of mail electronically and pay bills over the Internet.

SERVING INVESTMENT AND CORPORATE CUSTOMERS

We made significant progress in 1998 in improving service to our investment and corporate banking customers.

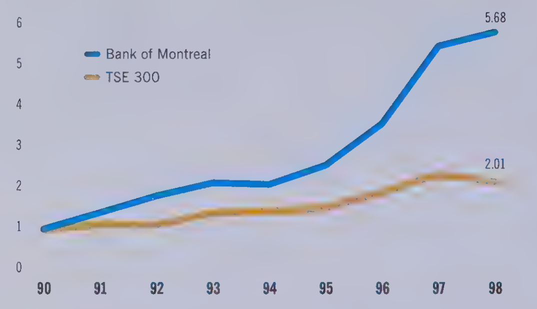
Last year saw the full-scale expansion of our InvestorLine service hours. Customers are now able to place trades, obtain real-time quotes, and check on their accounts 24 hours a day, 365 days a year. InvestorLine also launched its Internet FundFinder™ service, which is designed to attract more mutual fund holdings to InvestorLine accounts.

We launched the Nesbitt Burns Quadrant Program, a comprehensive pooled account program that allows Nesbitt Burns investment advisors to tailor portfolios to specific client objectives and risk profiles.

We introduced the Nesbitt Burns Mutual Fund Mosaic selection system, which helps investors determine the most appropriate mutual fund and optimal asset mix to deliver the anticipated return within acceptable risk levels.

We continued to improve electronic access for our corporate customers thanks to the electronic launch of our Foreign Exchange transfer and Canadian Treasury Money Market services. The former allows the transfer of up to US$1 million between U.S. and Canadian dollar accounts;

GROWTH OF A DOLLAR INVESTED IN BANK OF MONTREAL COMMON SHARES* ($)



*Assumes reinvestment of common share dividends.

and the latter permits direct investment in Canadian money market instruments that include treasury bills, bankers' acceptances, commercial paper and term deposit receipts.

And we maintained our leading market share position in the mergers and acquisitions advisory business and in block trading of Canadian equities.

TAKING A FEW BOWS

Our stepped-up efforts to create innovative customer solutions through cutting-edge technologies earned us an array of honours in 1998 on both the national and international levels.

On the national level, our technology and line-of-business teams combined to capture three of the top 10 CIO Canada 1998 Information Technology Excellence (ITX) Awards. Our winners include: mbanx, for its "defining leadership" in electronic financial services in Canada; NetLending, for putting mortgage, MasterCard and student line-of-credit applications and approvals on-line for the first time; and MERX, an electronic tendering system that also won us a Distinction Award for investing strategically in information management and information technology.

On the international level, NetLending also earned us a nomination for a Computerworld Smithsonian Award for the visionary use of information technology to produce positive social, economic and education change; our interactive training CD-ROM, *The Quest*, took a best-in-category award from the British Interactive Multimedia Association; and the Treasury Knowledge Web, a new site on our Intranet, was honoured with an International EMMA Award, which the multimedia industry describes as its definitive standard of excellence.

And finally, it is worth noting that last year's Annual Report won a Silver Award in the Financial Institutions category of the 1998 Annual Report Awards sponsored by the Canadian Institute of Chartered Accountants and the *National Post* – whose judges also honoured us with the Award of Excellence in Corporate Governance.

FOCUSING ON WHAT'S MOST IMPORTANT

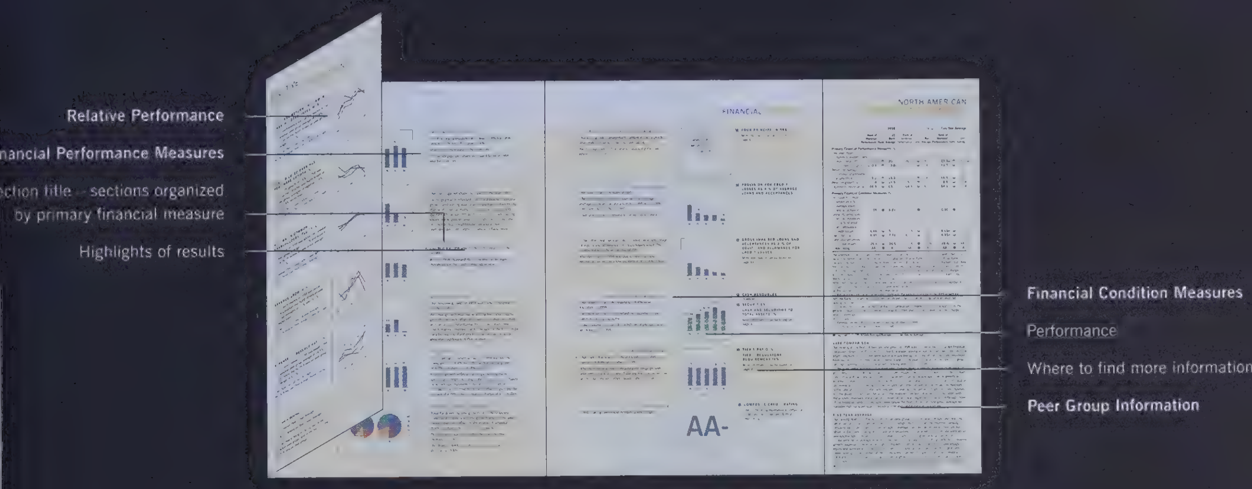
We have long acknowledged that, in the end, the only enduring competitive advantage we can intelligently hope for lies in the quality and capability of our employees, and in our ability to draw out everyone's personal best.

In 1998, that belief translated into an average of 7.2 training days per employee and a $63 million investment in training. With the long term firmly in mind, our Institute for Learning also sowed the seeds of a people management initiative designed to revolutionize the way we relate to one another.

Of all the initiatives we undertook to increase shareholder value in 1998, I think it can safely be said that few are likely to endure longer or reach farther than the turn we took toward making ourselves outstanding managers of people.

F. Anthony Comper
President & Chief Operating Officer

PERFORMANCE AT A GLANCE



FINANCIAL GOALS AND MEASURES

Our financial goal is to maximize long-term shareholder value by achieving consistently superior financial performance while maintaining strong financial condition.

Our financial performance objective is to consistently achieve higher than average earnings growth and return on common shareholders' equity with an appropriate dividend payout and yield.

Our financial condition objective is to maintain strong asset quality, capital base and liquidity level in comparison to our peers, while complying with applicable regulatory requirements.

We will achieve the above financial goals through competent, dedicated people, our ongoing technology investments, application of advanced management sciences and the diversification of our lines of business.

BANK OF MONTREAL – PERFORMANCE AT A GLANCE

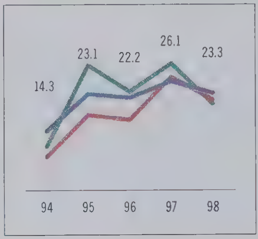
To assess our financial performance and condition, we continuously monitor a set of ten financial measures, which balance profitability and prudential concerns. The graphs and statistics on the following pages assess our performance based on these "primary" measures in comparison to the average for the six largest chartered banks in Canada (the Canadian peer group) and 22 of the largest banks in North America (the North American peer group). Top tier means being in the top two of the Canadian peer group and in the top six of the North American peer group. Definitions of the ten financial measures are provided in the Management Analysis of Operations section of the 1998 Annual Report beginning on page 20.

RELATIVE FINANCIAL PERFORMANCE

FIVE-YEAR RETURN ON COMMON SHAREHOLDERS' INVESTMENT (%)

- Our performance was top tier relative to the Canadian peer group average of 21.8%, and above the North American peer group average of 20.7%.

Canadian Peer Group: Top Tier
North American Peer Group: Above Average



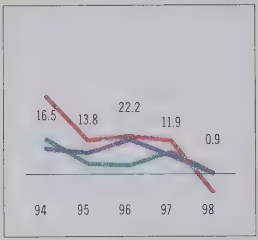
Shareholder Value

- Our five-year annualized ROI was 23.3% for 1998 versus 26.1% for 1997, down 2.8%.
- Share price increased 3.7% from 1997.
- Dividends paid per share increased $0.16 in 1998 and $0.19 in 1997.

FULLY DILUTED EARNINGS PER SHARE GROWTH (%)

- Our EPS growth of 0.9% in 1998 was above the Canadian and North American peer group averages of negative 10.6% and 0.8% respectively.

Canadian Peer Group: Above Average
North American Peer Group: Above Average



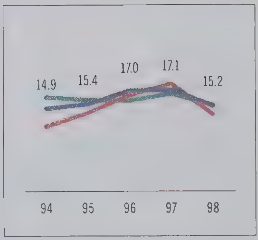
Earnings Growth

- Our earnings per share increased 0.9% from 1997.
- Earnings growth reflected continued business volume growth and strong asset quality, partially offset by the effects of unusual market conditions in the fourth quarter. These abnormal markets drove net trading losses in the quarter and contributed to the decline in other institutional businesses and a lower contribution from Grupo Financiero Bancomer.

RETURN ON COMMON SHAREHOLDERS' EQUITY (%)

- Our ROE in 1998 was above the Canadian peer group average of 14.2% and equal to the North American peer group average of 15.2%.

Canadian Peer Group: Above Average
North American Peer Group: Average



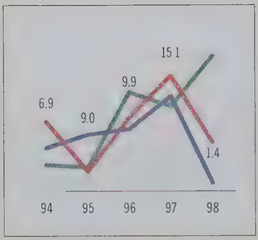
Profitability

- Our ROE for 1998 was 15.2% compared to 17.1% in 1997.
- ROE in 1998 exceeded the economic performance threshold for the ninth consecutive year.

REVENUE GROWTH (%)

- Our performance in 1998 was below the Canadian and North American peer group averages of 7.9% and 21.5% respectively.

Canadian Peer Group: Below Average
North American Peer Group: Below Average



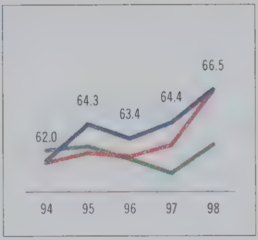
Revenue Growth

- Our revenue growth in 1998 was 1.4% compared to 15.1% in 1997.
- Revenue growth was due to strong business volume growth, partially offset by lower contributions from several of our institutional businesses, Bancomer, and foregone revenue due to the sale of the U.S. credit card business to Partners First, as well as the associated start-up losses in this venture.

EXPENSE-TO-REVENUE RATIO (%)

- Our performance in 1998 was equal to the Canadian peer group average of 66.5% and below the North American peer group average of 63.1%.

Canadian Peer Group: Average
North American Peer Group: Below Average



Productivity

- Our expense-to-revenue ratio in 1998 was 66.5% compared to 64.4% for 1997, with expense growth of 4.7% compared to 16.8% in 1997.
- Expense growth reflected strategic development spending, foreign exchange rate impact on U.S.-based expenses and business volume growth, net of productivity improvements and offset in part by the impact of a 1997 fourth quarter charge of $75 million.

- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

Top tier means being in the top two of the Canadian peer group, and in the top six of the North American peer group.

Operating Group Review

- Total Bank net income growth of 3.5% reflected continued business volume growth and strong asset quality, partially offset by the effects of unusual market conditions in the fourth quarter.
- PCFS, Harris and EFS combined net income increased 6.4%.
- I&CB and P&RMG combined net income decreased 25.8%.

RELATIVE FINANCIAL CONDITION

Enterprise-wide Risk Management

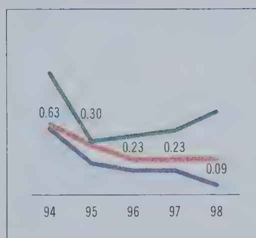
- Our strong risk management culture drives a prudent and professional approach to risk-taking.
- We manage risk with a view to balancing the risk-reward relationship.

Top tier means being in the top two of the Canadian peer group, and in the top six of the North American peer group.

- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

Credit Risk Management

- Our asset quality remained high.
- The provision for credit losses as a percentage of average loans and acceptances for 1998 was 0.09% compared to 0.23% for 1997.
- Loan portfolios continued to be well diversified.



PROVISION FOR CREDIT LOSSES AS A % OF AVERAGE LOANS AND ACCEPTANCES (%)

- Our performance was top tier relative to the Canadian and North American peer groups, which measured 0.35% and 0.81%, respectively.

Canadian Peer Group: Top Tier
North American Peer Group: Top Tier

- Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses was 6.7% compared to 7.6% at the end of 1997.
- The decrease in 1998 was due to reversals and recoveries as well as a low incidence of problem loans.

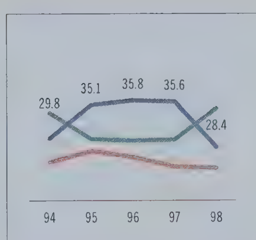
GROSS IMPAIRED LOANS AND ACCEPTANCES AS A % OF EQUITY AND ALLOWANCE FOR CREDIT LOSSES

- Our performance was top tier relative to the Canadian peer group at 12.43%, but below the North American peer group average of 5.73%.

Canadian Peer Group: Top Tier
North American Peer Group: Below Average

Liquidity Risk Management

- Our liquidity ratio decreased to 28.4% as at October 31, 1998.
- Deposits were well-diversified by customer, type, currency and geography.
- Liquid assets included $41.4 billion of pledged assets at October 31, 1998.



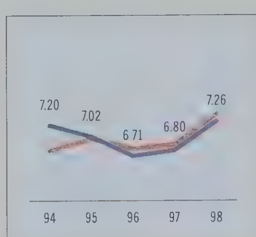
CASH AND SECURITIES-TO-TOTAL ASSETS (%)

- Our liquidity ratio was top tier relative to the Canadian peer group average of 25.1%, but below the North American peer group average of 34.5%.

Canadian Peer Group: Top Tier
North American Peer Group: Below Average

Capital Management

- Our Tier 1 Ratio was 7.26% at October 31, 1998 compared to 6.80% at October 31, 1997.
- The increase was due to retained earnings growth and preferred shares issued during the year, as well as securitizations and other balance sheet initiatives.



TIER 1 RATIO (%)

- Our Tier 1 ratio was below the Canadian peer group average of 7.38%.
- Our Tier 1 ratio of 6.95% on a U.S. basis was below the North American peer group average of 7.71%.

Canadian Peer Group: Below Average
North American Peer Group: Below Average

Credit Rating

- Credit rating composite remained unchanged.

AA-

CREDIT RATING

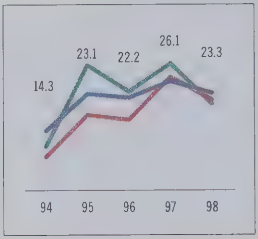
Canadian Peer Group: Average
North American Peer Group: Top Tier

RELATIVE FINANCIAL PERFORMANCE

FIVE-YEAR RETURN ON COMMON SHAREHOLDERS' INVESTMENT (%)

- Our performance was top tier relative to the Canadian peer group average of 21.8%, and above the North American peer group average of 20.7%.

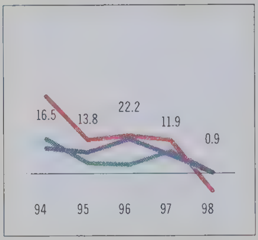
Canadian Peer Group: Top Tier
North American Peer Group: Above Average



FULLY DILUTED EARNINGS PER SHARE GROWTH (%)

- Our EPS growth of 0.9% in 1998 was above the Canadian and North American peer group averages of negative 10.6% and 0.8% respectively.

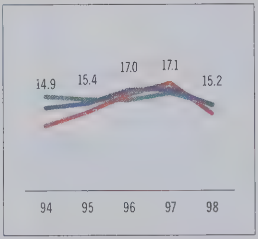
Canadian Peer Group: Above Average
North American Peer Group: Above Average



RETURN ON COMMON SHAREHOLDERS' EQUITY (%)

- Our ROE in 1998 was above the Canadian peer group average of 14.2% and equal to the North American peer group average of 15.2%.

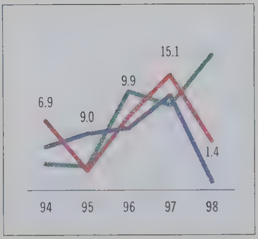
Canadian Peer Group: Above Average
North American Peer Group: Average



REVENUE GROWTH (%)

- Our performance in 1998 was below the Canadian and North American peer group averages of 7.9% and 21.5% respectively.

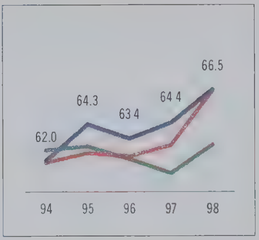
Canadian Peer Group: Below Average
North American Peer Group: Below Average



EXPENSE-TO-REVENUE RATIO (%)

- Our performance in 1998 was equal to the Canadian peer group average of 66.5% and below the North American peer group average of 63.1%.

Canadian Peer Group: Average
North American Peer Group: Below Average



- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

Top tier means being in the top two of the Canadian peer group, and in the top six of the North American peer group.

Shareholder Value

- Our five-year annualized ROI was 23.3% for 1998 versus 26.1% for 1997, down 2.8%.
- Share price increased 3.7% from 1997.
- Dividends paid per share increased $0.16 in 1998 and $0.19 in 1997.

Earnings Growth

- Our earnings per share increased 0.9% from 1997.
- Earnings growth reflected continued business volume growth and strong asset quality, partially offset by the effects of unusual market conditions in the fourth quarter. These abnormal markets drove net trading losses in the quarter and contributed to the decline in other institutional businesses and a lower contribution from Grupo Financiero Bancomer.

Profitability

- Our ROE for 1998 was 15.2% compared to 17.1% in 1997.
- ROE in 1998 exceeded the economic performance threshold for the ninth consecutive year.

Revenue Growth

- Our revenue growth in 1998 was 1.4% compared to 15.1% in 1997.
- Revenue growth was due to strong business volume growth, partially offset by lower contributions from several of our institutional businesses, Bancomer, and foregone revenue due to the sale of the U.S. credit card business to Partners First, as well as the associated start-up losses in this venture.

Productivity

- Our expense-to-revenue ratio in 1998 was 66.5% compared to 64.4% for 1997, with expense growth of 4.7% compared to 16.8% in 1997.
- Expense growth reflected strategic development spending, foreign exchange rate impact on U.S.-based expenses and business volume growth, net of productivity improvements and offset in part by the impact of a 1997 fourth quarter charge of $75 million.

Operating Group Review

- Total Bank net income growth of 3.5% reflected continued business volume growth and strong asset quality, partially offset by the effects of unusual market conditions in the fourth quarter.
- PCFS, Harris and EFS combined net income increased 6.4%.
- I&CB and P&RMG combined net income decreased 25.8%.

Enterprise-wide Risk Management

- Our strong risk management culture drives a prudent and professional approach to risk-taking.
- We manage risk with a view to balancing the risk-reward relationship.

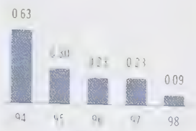
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

FOUR PRINCIPAL RISKS

More information can be found on page 43.

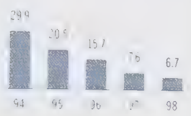
Credit Risk Management

- Our asset quality remained high.
- The provision for credit losses as a percentage of average loans and acceptances for 1998 was 0.09% compared to 0.23% for 1997.
- Loan portfolios continued to be well diversified.



PROVISION FOR CREDIT LOSSES AS A % OF AVERAGE LOANS AND ACCEPTANCES

- Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses was 6.7% compared to 7.6% at the end of 1997.
- The decrease in 1998 was due to reversals and recoveries as well as a low incidence of problem loans.

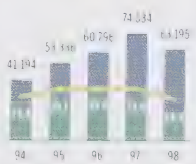


GROSS IMPAIRED LOANS AND ACCEPTANCES AS A % OF EQUITY AND ALLOWANCE FOR CREDIT LOSSES

More information can be found on page 44.

Liquidity Risk Management

- Our liquidity ratio decreased to 28.4% as at October 31, 1998.
- Deposits were well-diversified by customer, type, currency and geography.
- Liquid assets included $41.4 billion of pledged assets at October 31, 1998.



CASH RESOURCES ($ millions)

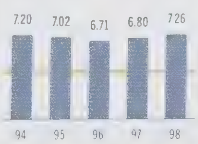
SECURITIES

CASH AND SECURITIES-TO-TOTAL ASSETS (%)

More information can be found on page 47.

Capital Management

- Our Tier 1 Ratio was 7.26% at October 31, 1998 compared to 6.80% at October 31, 1997.
- The increase was due to retained earnings growth and preferred shares issued during the year, as well as securitizations and other balance sheet initiatives.



TIER 1 RATIO (%)

TIER 1 REGULATORY REQUIREMENT (4%)

More information can be found on page 49.

Credit Rating

- Credit rating composite remained unchanged.

AA-

COMPOSITE CREDIT RATING

The credit rating represents a composite of Moody's and Standard & Poor's debt ratings.

	1998			1997(a)			Five-Year Average		
	Bank of Montreal Performance	Rank	22 Bank Average*	Bank of Montreal Performance	Rank	22 Bank Average*	Bank of Montreal Performance	Rank	22 Bank Average*
Primary Financial Performance Measures (%)									
Five-year return on common shareholders' investment (ROI)	**23.3**	◓	**20.7**	26.1	◒	30.4	**23.3**(e)	◓	20.7(e)
Fully diluted EPS growth (b)	**0.9**	◓	**0.8**(c)	11.9	◒	14.2	**13.0**	◒	10.0
Return on average common shareholders' equity (ROE)	**15.2**	◓	**15.2**(c)	17.1	◓	16.6	**15.9**	◒	16.0
Revenue growth (b)	**1.4**	◒	**21.5**	15.1	◓	13.5	**8.5**	◒	11.8
Expense-to-revenue ratio	**66.5**	◒	**63.1**	64.4	◒	61.2	**64.1**	◒	62.4
Primary Financial Condition Measures (%)									
Provision for credit losses as a % of average loans and acceptances	**0.09**	●	**0.81**(c)	0.23	●	0.61	**0.30**	●	0.73
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**6.66**	◒	**5.73**	7.65	◒	6.79	**6.66**(f)	◒	5.73(f)
Tier 1 ratio (d)	**6.95**	◒	**7.71**	6.35	◒	7.59	**6.95**(f)	◒	7.71(f)
Cash and securities-to-total assets	**28.4**	◒	**34.5**	35.6	●	29.8	**28.4**(f)	◒	34.5(f)
Credit rating	**AA-**	●	**A+**	AA-	●	A+	**AA-**(f)	●	A+(f)

*The selection of the 22 largest banks is based on the size of their 1997 common shareholders' equity: Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Toronto-Dominion Bank, Banc One Corp., BankAmerica Corporation, Bankers Trust New York Corporation, The Bank of New York Company, Inc., The Chase Manhattan Corporation, Citicorp N.A., First Chicago NBD Corporation, First Union Corporation, Fleet Financial Group, J.P. Morgan & Co. Inc., Keycorp, U.S. Bancorp, Norwest Corporation, PNC Bank Corp., SunTrust Banks, Inc., Wachovia Corporation, Wells Fargo & Company.

Note: Performance for the U.S. banks was based on the twelve-month period ended September 30 to approximate the Canadian bank fiscal year which ended on October 31.

(a) Reclassified to conform with 1998 presentation.

(b) Ratios shown are the actual reported ratios with the exception of fully diluted EPS growth for National Bank of Canada which was restated as per note (c). Non-recurring items are excluded for ranking purposes.

(c) The reported numbers for National Bank of Canada were restated to reflect the addition to the general allowance for credit losses as a charge to current year income instead of a direct charge to retained earnings.

(d) U.S. basis

(e) Reflects five-year ROI for the period ending October 31, 1998.

(f) Condition ratios are as at October 31, 1998.

● Top Tier ◓ Above Average/Average ◒ Below Average

1998 COMPARISON

Our ranking in the North American peer group in 1998 was top tier in two of our ten financial measures, down from three in 1997, due to a lower ranking in our cash and securities-to-total assets measure in 1998. We were above average/average in three of our measures, improved from two in 1997, as improvements were made in five-year ROI and fully diluted EPS growth rankings, whereas our revenue growth ranking was lower in 1998.

We were below average in five measures, namely revenue growth, expense-to-revenue ratio, gross impaired loans and acceptances as a percentage of equity and allowance for credit losses, Tier 1 ratio and cash and securities-to-total assets. Our below average revenue growth and expense-to-revenue ratios in 1998 reflected the unusual market conditions in the fourth quarter on several of our institutional businesses and Bancomer, as well as the impact on revenues of the sale of our U.S. credit card business. These factors partially offset continued business volume growth. In addition, because of the relatively low level of expenses associated with these lower revenues, the expense-to-revenue ratio was negatively impacted. Although three of our financial condition measures were below the North American peer group average we consider that our asset quality, liquidity level and capital base remain strong.

FIVE-YEAR AVERAGE

Our ranking relative to the North American peer group on a five-year average basis was top tier in two of our ten financial measures, unchanged from 1997, as the improved ranking of our provision for credit losses as a percentage of average loans and acceptances measure was offset by the lower ranking of our cash and securities-to-total assets measure. We were above average/average in respect of the five-year ROI, which is a higher ranking than in 1997.

We were below average in seven measures, namely fully diluted EPS growth, ROE, revenue growth, expense-to-revenue ratio, gross impaired loans and acceptances as a percentage of equity and allowance for credit losses, Tier 1 ratio and cash and securities-to-total assets. Our lower ranking in the first two of these measures reflected stronger industry performance in 1994 and 1995. Our lower ranking for revenue growth and the expense-to-revenue ratio was due to stronger industry results in 1996 and 1998. Our ranking in the last three of these measures, which all relate to financial condition, is discussed under 1998 comparison.

CANADIAN BANK PEER GROUP COMPARISON

	1998			1997			Five-Year Average		
	Bank of Montreal Performance	Rank	Six Bank Average*	Bank of Montreal Performance	Rank	Six Bank Average*	Bank of Montreal Performance	Rank	Six Bank Average*
Primary Financial Performance Measures (%)									
Five-year return on common shareholders' investment (ROI)	23.3	●	21.8	26.1	◒	27.3	23.3(a)	●	21.8(a)
Fully diluted EPS growth (b)	0.9	◓	(10.6)(c)	11.9	◒	21.6	13.0	◒	21.4
Return on average common shareholders' equity (ROE)	15.2	◓	14.2(c)	17.1	◒	18.0	15.9	●	15.2
Revenue growth (b)	1.4	◒	7.9	15.1	◒	18.0	8.5	◒	10.4
Expense-to-revenue ratio	66.5	◓	66.5	64.4	◒	63.0	64.1	◒	63.3
Primary Financial Condition Measures (%)									
[illegible] losses as a % of average loans [illegible]	[illegible]	●	0.35	[illegible]	●	[illegible]	0.30	●	[illegible]
[illegible] impaired loans and acceptances as a % of equity and allowance for credit losses	6.66	●	12.43	7.65	●	13.68	6.66(d)	●	12.43(d)
Tier 1 ratio	7.26	◒	7.38	6.80	◒	6.89	7.26(d)	◒	7.38(d)
Cash and securities-to-total assets	28.4	●	25.1	35.6	●	25.4	28.4(d)	●	25.1(d)
Credit rating	AA-	◓	AA-	AA-	◓	AA-	AA-(d)	◓	AA-(d)

*The six banks used to calculate the average were: Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and The [illegible]

(a) Reflects five-year ROI for the period ending October 31, 1998.
(b) Ratios shown are the actual reported ratios with the exception of fully diluted EPS growth for National Bank of Canada, which was restated as per note (c). Non-recurring items are excluded for ranking purposes.
(c) The reported numbers for National Bank of Canada were restated to reflect the addition to the general allowance for credit losses as a charge to current year income instead of a direct charge to retained earnings.
(d) Condition ratios are as at October 31, 1998.

● Top Tier ◓ Above Average/Average ◒ Below Average

1998 COMPARISON

Our ranking in the Canadian peer group in 1998 was top tier in four of our ten financial measures, up from three in 1997, due to the improvement in our five-year ROI position. We were above average/average in four of our measures, improved from one in 1997, because of our higher ranking in fully diluted EPS growth, ROE and the expense-to-revenue ratio.

We were below average in two measures, namely revenue growth and Tier 1 ratio. Our lower revenue growth in 1998 reflected the unusual market conditions in the fourth quarter that resulted in lower contributions primarily from several institutional businesses and Group Financiero Bancomer, as well as foregone revenue due to the sale of our U.S. credit card business. These factors partially offset continued business volume growth. While our Tier 1 ratio is below the Canadian peer group average of 7.38%, it is above the 7% expectation of our primary regulator and we consider our capital position to be strong.

FIVE-YEAR AVERAGE

Our ranking relative to the Canadian peer group on a five-year average basis was top tier in five of our ten financial measures, up from four in 1997, due to the improvement in our five-year ROI position. We were above average/average in respect of our credit rating measure, consistent with 1997.

[illegible] under 1998 comparison above.

FINANCIAL PERFORMANCE

FIVE-YEAR RETURN ON COMMON SHAREHOLDERS' INVESTMENT (%)

More information can be found on page 21.

Shareholder Value

- Our five-year annualized ROI was 23.3% for 1998 versus 26.1% for 1997, down 2.8%.
- Share price increased 3.7% from 1997.
- Dividends paid per share increased $0.16 in 1998 and $0.19 in 1997.

FULLY DILUTED EARNINGS PER SHARE GROWTH (%)

OBJECTIVE (MINIMUM OF 10%)

More information can be found on page 23.

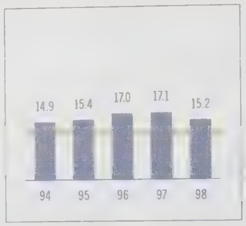
Earnings Growth

- Our earnings per share increased 0.9% from 1997.
- Earnings growth reflected continued business volume growth and strong asset quality, partially offset by the effects of unusual market conditions in the fourth quarter. These abnormal markets drove net trading losses in the quarter and contributed to the [illegible] in other institutional businesses and a lower contribution from Grupo Financiero Bancomer.

RETURN ON COMMON SHAREHOLDERS' EQUITY (%)

MINIMUM ECONOMIC THRESHOLD (12% 1995–98; 13% IN 1994)

[illegible] page 25.

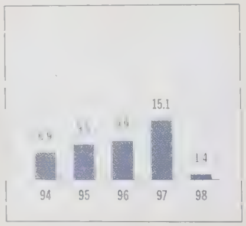


Profitability

- Our ROE for 1998 was 15.2% compared to 17.1% in 1997.
- ROE in 1998 exceeded the economic performance threshold for the ninth consecutive year.

REVENUE GROWTH (%)

More information can be found on page 26.

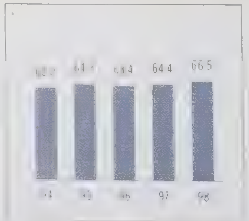


Revenue Growth

- Our revenue growth in 1998 was 1.4% compared to 15.1% in 1997.
- Revenue growth was due to strong business volume growth, partially offset by lower contributions from several of our institutional businesses, Bancomer, and foregone revenue due to the sale of the U.S. credit card business to Partners First, as well as the associated start-up losses in this venture.

EXPENSE-TO-REVENUE RATIO (%)

More information can be found on page 30.



Productivity

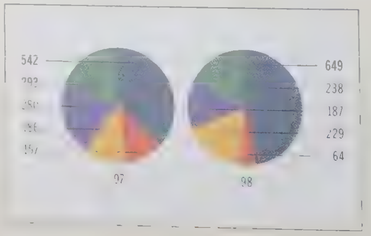
- Our expense-to-revenue ratio in 1998 was 66.5% compared to 64.4% for 1997, with expense growth of 4.7% compared to 16.8% in 1997.
- Expense growth reflected strategic development spending, foreign exchange rate impact on U.S.-based expenses and business volume growth, net of productivity improvements and offset in part by the impact of a 1997 fourth quarter charge of $75 [illegible]

NET INCOME BY OPERATING GROUP

($ millions)

PCFS I&CB
EFS P&RMG
HARRIS

More information can be found on page 31.



Operating Group Review

- Total Bank net income growth of 3.5% reflected continued business volume growth and strong asset quality, partially offset by the effects of unusual market conditions in the fourth quarter.
- PCFS, Harris and EFS combined net income increased 6.4%.
- I&CB and P&RMG combined net income decreased 25.8%.

RELATIVE FINANCIAL CONDITION

Enterprise-wide Risk Management

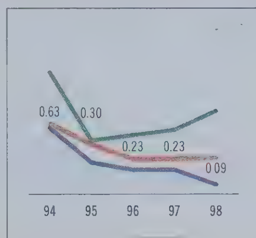
- Our strong risk management culture drives a prudent and professional approach to risk-taking.
- We manage risk with a view to balancing the risk-reward relationship.

Top tier means being in the top two of the Canadian peer group, and in the top six of the North American peer group.

- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

Credit Risk Management

- Our asset quality remained high.
- The provision for credit losses as a percentage of average loans and acceptances for 1998 was 0.09% compared to 0.23% for 1997.
- Loan portfolios continued to be well diversified.

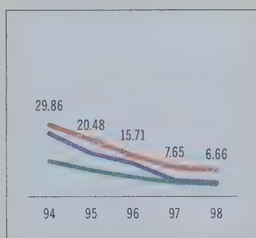


PROVISION FOR CREDIT LOSSES AS A % OF AVERAGE LOANS AND ACCEPTANCES (%)

- Our performance was top tier relative to the Canadian and North American peer groups, which measured 0.35% and 0.81%, respectively.

Canadian Peer Group: Top Tier
North American Peer Group: Top Tier

- Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses was 6.7% compared to 7.6% at the end of 1997.
- The decrease in 1998 was due to reversals and recoveries as well as a low incidence of problem loans.



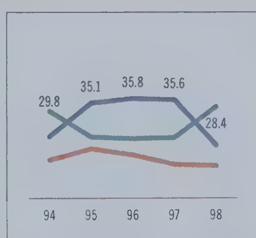
GROSS IMPAIRED LOANS AND ACCEPTANCES AS A % OF EQUITY AND ALLOWANCE FOR CREDIT LOSSES

- Our performance was top tier relative to the Canadian peer group at 12.43%, but below the North American peer group average of 5.73%.

Canadian Peer Group: Top Tier
North American Peer Group: Below Average

Liquidity Risk Management

- Our liquidity ratio decreased to 28.4% as at October 31, 1998.
- Deposits were well-diversified by customer, type, currency and geography.
- Liquid assets included $41.4 billion of pledged assets at October 31, 1998.



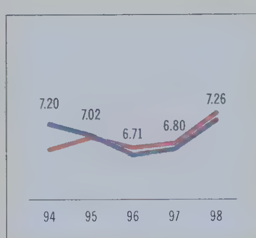
CASH AND SECURITIES-TO-TOTAL ASSETS (%)

- Our liquidity ratio was top tier relative to the Canadian peer group average of 25.1%, but below the North American peer group average of 34.5%.

Canadian Peer Group: Top Tier
North American Peer Group: Below Average

Capital Management

- Our Tier 1 Ratio was 7.26% at October 31, 1998 compared to 6.80% at October 31, 1997.
- The increase was due to retained earnings growth and preferred shares issued during the year, as well as securitizations and other balance sheet initiatives.



TIER 1 RATIO (%)

- Our Tier 1 ratio was below the Canadian peer group average of 7.38%.
- Our Tier 1 ratio of 6.95% on a U.S. basis was below the North American peer group average of 7.71%.

Canadian Peer Group: Below Average
North American Peer Group: Below Average

Credit Rating

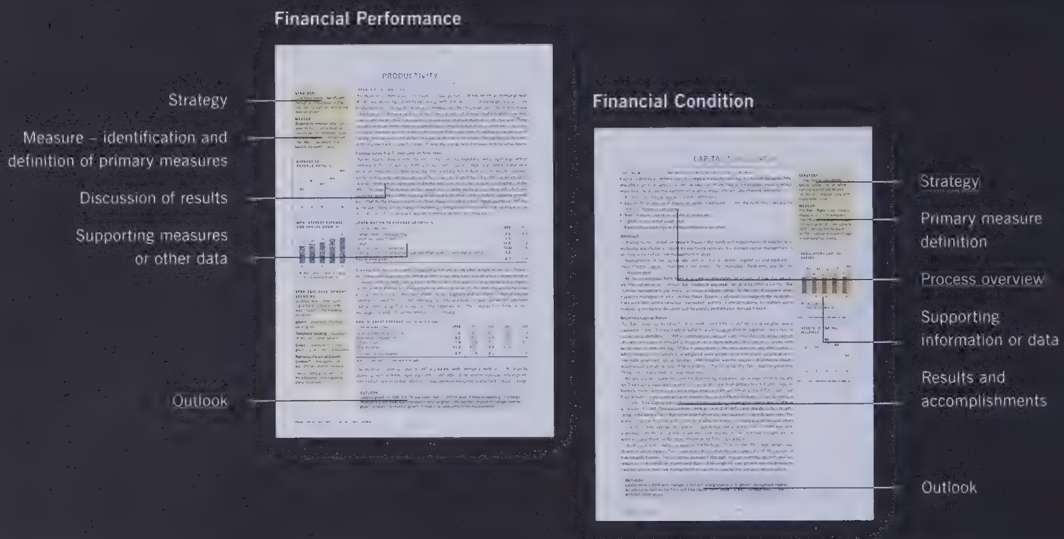
- Credit rating composite remained unchanged.

AA-

CREDIT RATING

Canadian Peer Group: Average
North American Peer Group: Top Tier

MANAGEMENT ANALYSIS OF OPERATIONS



This section of the Annual Report provides management's discussion and analysis of the financial performance and financial condition of Bank of Montreal for the years ended October 31, 1998 and 1997. The analysis focuses on our strategies and financial results and is organized around ten primary measures that we use to monitor our overall financial performance and condition. The analysis is based on our consolidated financial statements, which are presented later in the Annual Report, beginning on page 68. All dollar amounts are expressed in Canadian dollars unless otherwise stated.

INDEX

FORWARD-LOOKING STATEMENTS

From time to time we make written and verbal forward-looking statements, including in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications. These forward-looking statements include comments with respect to our financial condition, the results of our operations and our businesses.

However, by their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include, but are not limited to: fluctuations in interest rates and currency values; regulatory developments; the effects of competition in the geographic and business areas in which we operate, including continued pricing pressure on loan and deposit products; changes in political and economic conditions including, among other things, inflation; and technological changes. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Forward-looking statements appear in shaded boxes throughout the Management Analysis of Operations. They are referred to using the heading "Outlook" in Revenue Growth on page 28; Productivity on page 30; Credit Risk on page 46; Liquidity Risk Management on page 48; and Capital Management on page 49. In addition, an outlook with regard to the Economy and Global Developments is included, starting on page 51.

SHAREHOLDER VALUE

BANK OF MONTREAL/ROYAL BANK OF CANADA MERGER

On January 23rd, 1998 we announced a definitive agreement, subject to regulatory and shareholder approval, to merge with Royal Bank of Canada. This transaction is a merger of equals and will be accounted for as a pooling of interests. Under the terms of the agreement, our shareholders will receive 0.97 of a common share of the merged entity for each common share held. Royal Bank of Canada shareholders will receive one common share of the new bank for each common share held.

The expected date of the merger is dependent on approvals by the shareholders of each Bank and upon receipt of approvals under the Bank Act and the Competition Act in Canada, as well as various other Canadian, U.S. and international regulatory and other approvals. A Joint Management Proxy Circular will be sent to all shareholders after regulatory approval is obtained, describing the proposed merger in detail.

STRATEGY:
To maximize shareholder value through consistent earnings per share growth, focusing on both profitability and responsible capital management.

MEASURES:
Our primary measure is the **five-year return on common shareholders' investment (five-year ROI)**, which is an indicator of long-term success in increasing shareholder value.

Five-year ROI is calculated as the annualized total return earned on an investment in Bank of Montreal common shares made at the beginning of a five-year period. Total return includes the effect of the change in share price and the reinvestment of received dividends in additional Bank of Montreal common shares.

FIVE-YEAR ANNUALIZED RETURN OF 23.3%

Return on common shareholders' investment (ROI†) is the most important of our ten primary measures of success. We consider ROI to be the best external measure of shareholder value. Dedicated, competent people, ongoing technology investments and advanced management sciences applied across our diversified lines of business work together to achieve our goal of maximizing shareholder value.

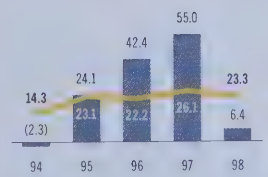
Over the past five years our shareholders have received a return of 23.3% on their investment in Bank of Montreal. This return exceeded the market return, defined as the TSE 300 Composite Index® (TSE 300) for the same period, by 1320 basis points.† Our above-market returns reflect a $36.23 appreciation in share price since the beginning of 1994 and an increase of $0.58 in annual dividends paid on common shares. An investment of $1,000 in Bank of Montreal common shares at the beginning of 1994 would have been valued at $2,847 at October 31, 1998, a return of $1,847 primarily due to the increase in share price.

RETURN ON COMMON SHAREHOLDERS' INVESTMENT

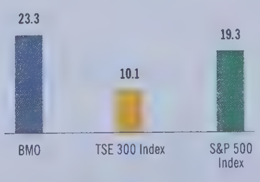
For the year ended October 31	**1998**	1997	1996	1995	1994
Closing market price per common share ($)	**63.10**	60.85	40.55	29.75	25.13
Dividends paid ($ per share)	**1.76**	1.60	1.41	1.29	1.18
Dividend yield (%) (a)	**2.9**	3.9	4.7	5.1	4.4
Five-year ROI (%)	**23.3**	26.1	22.2	23.1	14.3
Annual ROI (%)	**6.4**	55.0	42.4	24.1	(2.3)

(a) Dividends paid in the year divided by the opening stock price

RETURN ON INVESTMENT



FIVE-YEAR RETURN ON INVESTMENT (%)



In 1998 our shareholders received a return of 6.4% on their investment in Bank of Montreal common shares, which exceeded the negative market return of 7.8% by 1420 basis points. Market returns during the year were hurt by global economic events, particularly in Asia. Above-market return on an investment in Bank of Montreal in 1998 reflected continued higher valuations accorded to our stock by the market.

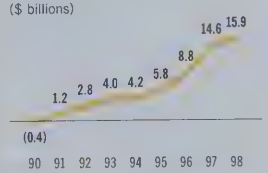
In 1997, shareholders earned an annual return of 55%, which exceeded the TSE 300 return by 3060 basis points. The return in 1997 was driven by strong financial performance, enhanced by higher valuations given to Canadian banks in general, and a robust North American economy.

CUMULATIVE GROWTH IN SHAREHOLDER VALUE REMAINS HIGH

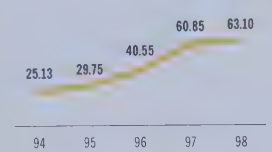
The cumulative growth in shareholder value is measured by the change in market capitalization plus the dividends paid, over a specified period of time. Over the past nine years our cumulative growth in shareholder value was $15.9 billion, comprised of $12.9 billion in increased market capitalization and $3.0 billion in increased dividends.

Cumulative growth in shareholder value is equivalent to total return to shareholders.

CUMULATIVE GROWTH IN SHAREHOLDER VALUE
($ billions)



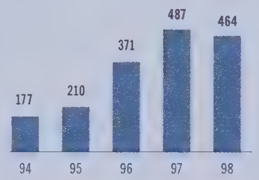
CLOSING PRICE PER COMMON SHARE ($)



® TSE 300 Composite Index is a registered trade mark of the Toronto Stock Exchange.
† Defined in the Glossary on page 92

SHAREHOLDER VALUE

NET ECONOMIC PROFIT
($ millions)



MANAGING TO MAXIMIZE SHAREHOLDER VALUE

Last year we discussed our adoption of Net Economic Profit (NEP) as a new measure to focus business units on the objective of enhancing overall shareholder value.

NEP is net income available to common shareholders adjusted for a number of items to more accurately reflect the economic or cash contribution by a business unit on an ongoing basis. Adjustments include those related to accounting for business acquisitions (goodwill), loan losses on an "expected" loss basis, and the exclusion of any non-recurring and unusual items. A charge for the cost of common equity capital is then deducted to arrive at NEP. The rate applied to capital to determine the charge is calculated as the average yield on 10-year Government of Canada Bonds, plus a 5% premium for the risk of investing in Bank of Montreal common shares. This charge is labelled cost of equity in the table on this page.

The benefit of this measure is that it focuses not only on cash income contribution but also on the equity resources used to produce that income.

NET ECONOMIC PROFIT ($ millions)

For the year ended October 31	**1998**	1997	1996	1995	1994
Cash net income	**1,307**	1,293	1,159	975	790
Less:					
After-tax impact of non-recurring items	**–**	–	(14)	(34)	(46)
Charge for capital	**843**	806	802	799	659
Net economic profit	**464**	487	371	210	177

For the above, expected losses are assumed to equal the reported loan loss provision each year.

CHARGE FOR CAPITAL

For the year ended October 31	**1998**	1997	1996	1995	1994
Average common shareholders' equity ($ millions)	**8,128**	7,165	6,457	5,937	5,088
Cost of equity (%)	**10.4**	11.3	12.4	13.5	13.0
	843	806	802	799	659

Net economic profit decreased by $23 million in 1998 because the rate of growth in our common shareholders' equity exceeded the net income growth rate in 1998. The impact of the increase in equity was partially offset by the reduced cost of equity from 11.3% to 10.4% in 1998.

EARNINGS GROWTH

NINE CONSECUTIVE YEARS OF EARNINGS GROWTH

In 1998, our fully diluted earnings per share (EPS) were $4.66, an increase of 0.9% from $4.62 in 1997. The impact of abnormal market conditions prevented us from achieving our minimum 10% EPS growth objective; however, we continue to maintain this as our target going forward. Average EPS growth over the past five years was 13.0%, a decrease from the five-year average growth of 14.5% in 1997. Year-over-year income growth was 3.5% this year, compared to 11.7% in 1997.

EARNINGS GROWTH

For the year ended October 31	**1998**	1997	1996	1995	1994
Net income ($ millions)	**1,350**	1,305	1,168	986	825
Year-over-year growth (%)	**3.5**	11.7	18.4	19.5	16.4
Fully diluted earnings per share ($)	**4.66**	4.62	4.13	3.38	2.97
Year-over-year growth (%)	**0.9**	11.9	22.2	13.8	16.5

Note: For more information see Table 2 on page 54.

Net income growth of 3.5% in 1998 reflected continued business volume growth and strong asset quality, which were partially offset by the effects of unusual market conditions in the fourth quarter. These abnormal markets drove net trading losses of $90 million after tax in the quarter and contributed to the year-over-year decline in other institutional businesses and a lower contribution from Grupo Financiero Bancomer (Bancomer).

STRATEGY:
To provide consistent and above-average earnings per share growth through diversified revenue growth strategies, productivity initiatives and prudent risk management.

MEASURE:
Year-over-year percentage change in fully diluted earnings per share (EPS) is our primary measure for analyzing earnings growth, with 10% EPS growth set as our minimum objective. It is calculated by dividing earnings available to common shareholders for the year by the daily average number of fully diluted common shares. Fully diluted common shares represent the common shares that would have been outstanding assuming conversion as at the beginning of the year or at the date of issuance of all securities that are convertible into or redeemable for common shares and that are considered dilutive.

RETAIL AND COMMERCIAL SEGMENT INCOME GROWTH

While we manage our operations within different operating groups, as described on page 31, we also analyze performance by aggregating operating groups into segments according to the primary client type they serve. The retail and commercial segment includes those operating groups that primarily serve our retail and commercial clients, namely: Personal and Commercial Financial Services, Electronic Financial Services, Harris Regional Banking, and the Private Client Division and Asset Management Services within Investment and Corporate Banking. The institutional segment comprises the remainder of Investment and Corporate Banking and Portfolio and Risk Management Group. Our objective is to generate long-term earnings growth in both of our primary market segments while recognizing that institutional businesses are generally more market-sensitive in the short term.

Our 16.2% equity investment in Bancomer is reviewed separately in the table below as it serves both retail and institutional clients.

Corporate Support includes any residual revenues and expenses representing the difference between actual amounts incurred at the consolidated Bank level and the amounts allocated to operating groups. Corporate Support also includes the impact of asset securitizations as described in the Capital Management section on page 50.

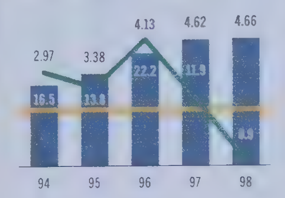
In 1998 our retail and commercial segment had a strong year while the results of our institutional segment were negatively impacted by unusual capital market conditions.

NET INCOME ($ millions)

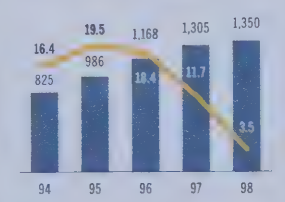
For the year ended October 31	**1998**	**% mix**	1997*	% mix	1996*	% mix
Retail and Commercial	**965**	**71.4**	870	66.6	895	76.7
Institutional	**378**	**28.0**	511	39.2	394	33.7
Bancomer	**24**	**1.8**	77	5.9	46	3.9
Corporate Support	**(17)**	**(1.2)**	(153)	(11.7)	(167)	(14.3)
Total Bank	**1,350**	**100.0**	1,305	100.0	1,168	100.0

*Reclassified to conform with the current year's presentation

FULLY DILUTED EPS AND ANNUAL GROWTH



NET INCOME AND ANNUAL GROWTH



Revenues for 1998 of $7,270 million were up 1.4% from $7,167 million a year ago due to strong business volume growth, primarily in our retail and commercial businesses, offset in part by lower contributions from several institutional lines of business (including trading), Bancomer, and foregone revenue due to the sale of the U.S. credit card business to Partners First™, as well as the associated start-up losses in this venture. Business volume growth includes the foreign exchange rate impact on U.S.-based revenues. For additional information on revenue growth please refer to page 26.

™ Partners First is a trade mark of Partners First Holdings LLC.

EARNINGS GROWTH

Our provision for credit losses of $130 million included a $110 million general provision bringing the total general allowance to $885 million. The total provision was $145 million lower than 1997 due to a $90 million lower addition to the general allowance, a reduction of approximately $100 million relating to credit card portfolios which were sold or securitized, offset by a higher level of net specific provisions. Further discussion on asset quality management can be found in the Credit Risk section of Enterprise-wide Risk Management on page 44.

Expense growth of 4.7%, the lowest level in nine years, was driven by continued strategic initiatives such as mbanx® and telephone banking, the foreign exchange rate impact on U.S.-based expenses and ongoing business volume growth, net of productivity improvements. This growth was offset in part by the impact of a $75 million charge recorded in the fourth quarter of 1997 for accelerated depreciation related to technology changes and for costs to improve the efficiency of the Bank's credit process, as well as a decline in revenue-driven compensation. Additional information on expense growth is provided on page 30.

Net income growth of 11.7% in 1997 was driven by strong business volume growth, cash collections on impaired loans and revenues from equities and bonds of lesser-developed countries which resulted in revenue growth of 15.1%. Expense growth of 16.8% was due to strategic initiatives and the $75 million charge referred to above. 1997 earnings also reflected a provision for credit losses of $275 million which included a $200 million charge to increase the level of our general allowance for credit losses.

A MORE COMPREHENSIVE VIEW USING ATTRIBUTION

A key element of our North American strategy remains our 16.2% equity stake in Bancomer, Mexico's leading financial institution. We also hold a 49% voting equity share in Partners First, our credit card venture. As we have the ability to significantly influence, but not control, Bancomer and Partners First, accounting principles require that the investments be equity accounted, meaning that their results are not fully consolidated with our results. Rather, our proportionate share of their net income is reported in our net interest income. This method of accounting does not provide insight into the full extent of our interest in their operations and service capability.

Attribution, which reports our proportionate share of the assets, revenue, expenses and service infrastructure of equity investments such as Bancomer and Partners First, provides a greater understanding and a more comprehensive view of our results for the year.

Illustrated below are a number of measures that indicate the extent to which our own operations and service capability are enhanced by our investments in Bancomer and Partners First.

	1998 (a)		1997 (b)	
As at or for the year ended	Attributed	Reported	Attributed	Reported
Total assets ($ millions)	**229,784**	**222,590**	213,382	207,838
Revenues ($ millions)	**7,747**	**7,270**	7,575	7,167
Expenses ($ millions)	**5,258**	**4,833**	4,881	4,613
Number of bank branches	**1,435**	**1,216**	1,449	1,246
Number of automated bank machines	**2,416**	**2,069**	2,359	2,035

Revenues include net interest income reported on a taxable equivalent basis (TEB†) and other income.

(a) Partners First amounts included with effect from January 29, 1998.

(b) The attributed amounts for 1997 are only in respect of our equity investment in Bancomer.

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† Defined in the Glossary on page 92

PROFITABILITY

RETURN ON EQUITY EXCEEDS 14% FOR NINTH CONSECUTIVE YEAR

Our 1998 return on equity was 15.2%, down from 17.1% achieved in 1997. 1998 was the ninth consecutive year that our ROE† exceeded 14%.

In order to achieve an appropriate return in relation to the various risks associated with our business activities, we manage our ROE against a minimum standard and an objective.

The minimum standard is the economic threshold, which reflects the rate of return that can be earned on a long-term, "risk-free" investment plus an appropriate risk premium. This threshold is set conservatively by the Board of Directors at the beginning of each fiscal year, based on the projected cost of equity (as described on page 22). Our performance has exceeded this economic threshold for the past eight years, as shown in Table 3 on page 54.

Our objective for ROE is to consistently exceed the North American peer group average. As a result our 1998 ROE objective was 15–17%.

ROE of 15.2% in 1998 reflects lower earnings growth in 1998 compared to 1997 relative to our increased level of capital. Refer to page 23 for more information on earnings growth and to page 49 for details concerning our capital management process.

RETURN ON COMMON SHAREHOLDERS' EQUITY (%)

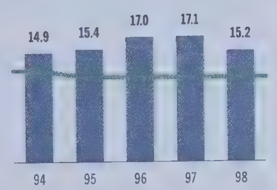
For the year ended October 31	**1998**	1997	1996	1995	1994
Return on common shareholders' equity	**15.2**	17.1	17.0	15.4	14.9
Economic performance threshold	**12.0**	12.0	12.0	12.0	13.0

Cash return on shareholders' equity and earnings per share calculated on a cash basis are described below. The after-tax effect of non-cash goodwill and other valuation intangibles is eliminated in both measures. Cash ROE decreased to 17.5% in 1998 from the 20.0% achieved in 1997, with cash EPS of $4.98 in 1998 compared to the $4.97 reported last year.

STRATEGY:
To improve profitability through the focused allocation of resources and diversification across our lines of business, by geographic market and by customer segment; with a commitment to improving profitability of those lines of business that are below the economic performance threshold; and through responsible capital management.

MEASURE:
Return on common shareholders' equity (ROE) is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital and retained earnings.

RETURN ON COMMON SHAREHOLDERS' EQUITY



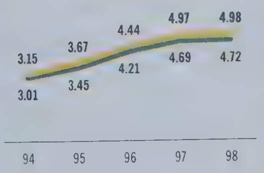
USING CASH BASIS REPORTING WOULD RESULT IN HIGHER EARNINGS AND ROE

Accounting principles that underpin the reporting of financial performance and financial condition are similar in Canada and the United States. One important difference, however, is that in the United States business acquisitions can be structured to use the "pooling" method, whereas in Canada the purchase method is generally required. In most cases, the pooling method results in higher earnings than would be reported using the purchase method.

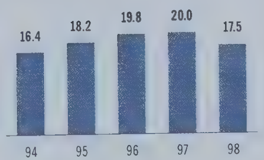
Specifically, with the purchase method, acquired assets and liabilities are accounted for at their fair value. The difference between the fair value of the net assets acquired and the purchase price is recorded as goodwill and expensed on an annual basis over the estimated life of the assets. With the pooling method, acquired assets and liabilities are accounted for at their book value. Subsequent years' earnings are not reduced by goodwill amortization.

When we compare our results to those of our North American peer group, it is more relevant to analyze cash earnings per share and cash return on equity. These cash measures are adjusted for the after-tax impact of non-cash goodwill and other valuation intangibles that are treated differently in Canada and the United States.

CASH AND BASIC EARNINGS PER SHARE



CASH RETURN ON COMMON SHAREHOLDERS' EQUITY (%)



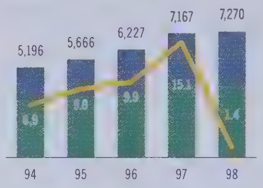
† Defined in the Glossary on page 92

REVENUE GROWTH

STRATEGY:
To grow total revenues consistently by providing valued products and services to customers while ensuring continued strong risk management.

MEASURE:
Percentage change in total year-over-year revenue is our primary measure of revenue growth. Total revenue consists of net interest income and other income.

REVENUE AND ANNUAL GROWTH



Other income ($ millions)
Net interest income (TEB) ($ millions)
Year-over-year growth (%)

STRONG BUSINESS VOLUME GROWTH OFFSET BY ABNORMAL MARKET CONDITIONS

Total revenues increased 1.4% in 1998, compared to 15.1% in 1997. Strong business volume growth, primarily in our retail and commercial businesses, increased revenue by 9.1%. This was offset by lower contributions from several institutional lines of business (including trading) (5.2%), Bancomer (0.7%), and foregone revenue due to the sale of the U.S. card business to Partners First as well as associated start-up losses in this venture (1.8%). Business volume growth included the foreign exchange rate impact of a lower Canadian dollar on U.S.-based revenues (1.4%).

Revenue growth of 15.1% in 1997 resulted from a 12.8% increase in net interest income, largely due to volume growth, and an 18.5% increase in other income, primarily in our fee-related businesses. 1997 also saw unusually high revenues of $250 million from cash collections on impaired loans and from equities and bonds of lesser-developed countries.

TOTAL REVENUE ($ millions)

For the year ended October 31	**1998**	1997	1996	1995	1994
Net interest income (TEB)	**4,152**	4,186	3,711	3,564	3,325
Year-over-year growth (%)	**(0.8)**	12.8	4.1	7.2	3.7
Other income	**3,118**	2,981	2,516	2,102	1,871
Year-over-year growth (%)	**4.6**	18.5	19.7	12.3	13.1
Total revenue	**7,270**	7,167	6,227	5,666	5,196
Year-over-year growth (%)	**1.4**	15.1	9.9	9.0	6.9

Net Interest Income Declined 0.8%

Net interest income comprises interest and dividend revenue earned on total assets, less interest expense paid on total liabilities. Net interest income growth is a function of volume growth and average net interest margin. Net interest margin† is defined as the difference between the interest rate earned on total average assets and the interest rate paid on total average liabilities. Average net interest margin is the ratio of net interest income to average assets. Our net interest income in 1998 on a taxable equivalent basis (TEB†) was $4,152 million. This represented a decrease of 0.8% from 1997 as the effect of continued strong business volume growth was more than offset by several distinct factors. These factors, which are discussed on page 27, were also the primary drivers of a decline in average net interest margin of 30 basis points.

CHANGE IN NET INTEREST INCOME AND AVERAGE ASSETS

	Net interest income ($ millions)			Average assets ($ billions)		
For the year ended October 31	**1998**	1997	% change	**1998**	1997	% change
Personal and Commercial Financial Services	**2,242**	2,123	5.6	**63**	59	8.1
Electronic Financial Services	**428**	574	(25.4)	**10**	8	33.0
Harris Regional Banking	**823**	703	17.2	**31**	26	20.3
Investment and Corporate Banking	**365**	285	27.8	**95**	80	18.3
Portfolio and Risk Management Group	**469**	572	(18.0)	**31**	23	34.6
Corporate Support	**(175)**	(71)		**(3)**	1	
Total Bank	**4,152**	4,186	(0.8)	**227**	197	15.6
Total Bank margin (basis points)	**183**	213	(30)			

Continued Volume Growth

Average total assets increased 15.6% in 1998 to $227 billion. The increase in assets in Personal and Commercial Financial Services reflected an increase in residential mortgages of 9.1% and in commercial loans, including loans to small and medium-sized businesses, of 12.1%. Asset growth in Electronic Financial Services was largely the result of continued growth in our mbanx division and in Corporate Electronic Financial Services, which includes North American Cash Management. Asset growth in Harris Regional Banking was the result of increased average loans of 22.1%, primarily in personal and commercial lending. Asset growth in Harris Regional Banking also includes the effect of a lower Canadian dollar. Growth in Investment and Corporate Banking was primarily due to increased volumes in securities and reverse repos.† The asset growth in Portfolio and Risk Management Group reflected increased corporate lending in 1998.

† Defined in the Glossary on page 92

Lower asset levels and decreased net interest income in Corporate Support resulted from securitizations undertaken by the Bank. For purposes of measuring operating group performance, the assets, revenues, expenses and loan losses associated with securitized assets continue to be reflected within the group results. These balances are then reversed in Corporate Support and the related securitization revenue recorded. Securitization revenue is included in other income as discussed below.

Further details regarding the increase in net interest income are shown in Tables 5, 6 and 7 on pages 56, 57 and 58.

Volume Growth Offset by Several Factors Impacting Margin

The positive contribution of business volume growth to net interest income growth was offset by several factors which decreased net interest income, and were the primary drivers of a 30 basis points decline in average net interest margin.

These factors included lower revenues from equities and bonds of lesser-developed countries (6 basis points), lower cash collections on impaired loans (4 basis points), lower revenues from U.S. card operations (6 basis points) and the reduced equity contribution from our investment in Bancomer (3 basis points). The remainder of the decline (11 basis points) was largely due to a flattening of the yield curve caused by increases in short-term rates and a changing mix of assets in 1998.

Revenues from equities and bonds of lesser-developed countries declined $104 million from the prior year, and cash collections on impaired loans were lower by $84 million. Our revenue from these sources continues to decline as a result of our reduced exposure in these portfolios.

Revenues from U.S. card operations were lower in 1998 as a result of foregone revenues on the sale of the U.S. card portfolio to Partners First in January 1998 and start-up losses arising from our equity position in this venture.

The decrease in Bancomer's contribution from $77 million in 1997 to $24 million in 1998 was due to unsettled global economic conditions, which negatively affected Bancomer's net income.

Margins declined 21 basis points from 1996 to 1997 for a number of reasons. We benefited from increased earnings from equities and bonds of lesser-developed countries ($48 million) and cash collections on impaired loans ($86 million), as well as increased equity earnings from Bancomer ($31 million). However, these positive factors were more than offset by high growth in lower-yielding assets which, although increased revenue, resulted in a lower net interest margin. Economic conditions in 1997 were such that as interest rates declined during the year, the rates earned on loans were lowered but the costs on deposit products did not fall to the same extent due to the existence of price floors.

Other Income Increased 4.6%

Other income comprises all revenue other than net interest income, such as lending fees, capital market fees, card services fees, securitization revenues, mutual fund fees, service charges, commission revenue and trading revenue.

COMPONENTS OF OTHER INCOME ($ millions)

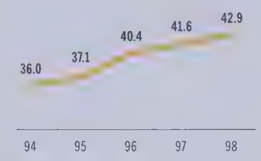
For the year ended October 31	**1998**	1997	1996	1995	1994
Deposits and payment service charges	**558**	508	473	451	437
Lending fees	**290**	240	194	186	180
Capital market fees	**869**	919	760	495	313
Card services	**196**	251	234	230	211
Investment management and custodial fees	**407**	299	221	240	197
Mutual fund revenues	**199**	155	87	53	56
Trading revenue	**40**	276	277	225	226
Securitization revenues	**158**	32	0	0	0
Other fees and commissions	**401**	301	270	222	251
Total	**3,118**	2,981	2,516	2,102	1,871

Other income increased $137 million to $3,118 million and contributed 42.9% of total revenue in 1998, an increase from the 1997 contribution of 41.6%. Growth was due to increased investment management and custodial fees, other fees and commissions, deposits and payment service charges, lending fees, mutual fund revenues and securitization revenue, partially offset by a reduction in trading revenue, capital market fees and card services.

Increased investment management and custodial fees, as well as increased mutual fund revenues, both resulted from an increase in assets under management and administration of 15.4% in 1998. Increased other fees and commissions were driven by volume-related increases in syndication fees, letters of credit and trust revenues, and higher investment returns from insurance activities. Increased deposits and payment service charges were primarily the result of continued growth in activity and product initiatives. Increased lending fees reflected growth in corporate underwritings. Increased securitization revenue and lower card services fees reflected the securitization of mortgages, corporate loans and additional credit card loans this year. This increase in securitization revenue offsets the reduction in net interest income from securitization discussed above. (For further details regarding the impact of securitizations, refer to the Capital Management section on page 50.)

REVENUE GROWTH

OTHER INCOME AS A % OF TOTAL REVENUE



The reduction in trading revenue and capital market fees reflected the impact of unusual market conditions in the fourth quarter.

Total trading revenue includes the net interest and other income derived from on- and off-balance sheet positions considered by management to be undertaken for trading purposes. This includes revenue from interest on balance sheet loans and securities and off-balance sheet interest rate, foreign exchange (including spot positions), commodity and equity contracts.

Total revenue from trading-related activities decreased by 57.4% in 1998 compared to an 8.8% increase in 1997. Lower trading revenues were due to trading losses incurred in the fourth quarter, primarily in the Bank's corporate debt securities portfolios (as reported in our Investment and Corporate Banking section on page 39). These were partly offset by increased revenues in derivatives, foreign exchange and managed futures trading.

INTEREST AND NON-INTEREST TRADING REVENUE ($ millions)

	For the three months ended October 31, 1998	For the year ended October 31				
		1998	1997*	1996*	1995*	1994*
Investment and Corporate Banking						
Total Trading – Global Financial Products (derivatives)	**27**	**85**	52	42	17	36
– Foreign Exchange	**19**	**114**	92	83	56	35
– Global Distribution Trading	**(68)**	**(61)**	16	2	1	0
– Institutional Equities, Fixed Income & Other Proprietary Trading	**(91)**	**(21)**	113	105	137	143
– Other	**(26)**	**(12)**	11	25	6	7
Total	**(139)**	**105**	284	257	217	221
Portfolio and Risk Management Group						
Total Trading – Collateralized Bond Obligations	**(28)**	**(9)**	6	(4)	(1)	(7)
Harris Regional Banking						
Total Trading	**12**	**37**	22	33	32	35
	(155)	**133**	312	286	248	249
Total Bank						
Net interest income	**21**	**93**	36	9	23	23
Other income – Trading income	**(176)**	**40**	276	277	225	226
Total	**(155)**	**133**	312	286	248	249

*Reclassified to conform with the current year's presentation.

In 1997 other income increased 18.5%, or $465 million. This was primarily due to higher capital market fees, increased investment management and custodial fees and higher mutual fund revenues. The increase in capital market fees was a reflection of the continued strong capital markets in North America, which saw increased issue activity and secondary trading volumes. Increased investment management and custodial fees, and mutual fund revenues, were the result of 45.4% growth in assets under management and a 17.9% increase in assets under administration.

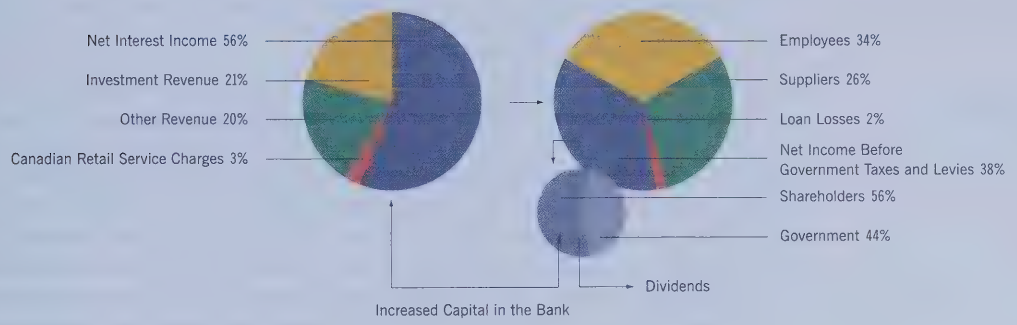
OUTLOOK

Revenue growth in 1998 of 1.4% was lower than growth in 1997, primarily because of the material, negative impact of unusual market conditions in the fourth quarter. In 1999 we expect revenue growth to be higher than in 1998, but we believe that this growth will be affected by the anticipated slower growth in the economy. Management will continue to focus on areas of our business that present the highest potential for growth in shareholder value.

WHERE BANK REVENUE COMES FROM... AND WHERE IT GOES TO

WITHIN THE CONTEXT OF THE ECONOMY AT LARGE, WE ACT AS A FINANCIAL INTERMEDIARY, WITH REVENUES FROM CUSTOMERS FLOWING TO EMPLOYEES, SUPPLIERS, THE GOVERNMENT AND SHAREHOLDERS. WE RETAIN PART OF THE SHAREHOLDER PORTION TO SUPPORT FUTURE GROWTH AND INVESTMENT.

WHERE BANK REVENUE COMES FROM*... AND WHERE IT GOES TO*



*Note: Investment Revenue represents capital market fees, investment management and custodial fees and mutual fund revenues; Canadian Retail Service Charges represent deposit and payment service charges; Employees segment represents employee salaries and benefits expenses; Suppliers segment represents total expenses less employee expenses and government-related expenses; Government segment represents income taxes and other government levies; Shareholders segment represents net income and minority interest; Increased Capital in the Bank segment represents net income less dividends.

GOVERNMENT TAXES AND LEVIES REPRESENTED MORE THAN 40% OF OUR PRE-TAX EARNINGS

Total government taxes and levies of $1,080 million in 1998 represented over 40% of our net income before taxes and government levies.

The provision for taxes in the Income Statement as a percentage of pre-tax income was 36.9% versus 38.7% in 1997, as shown in note 15 to the consolidated financial statements on page 81.

GOVERNMENT TAXES AND LEVIES ($ millions except as noted)

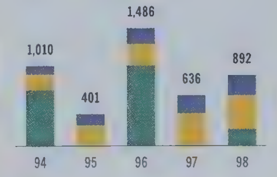
For the year ended October 31	**1998**	1997	1996	1995	1994
Government levies other than income taxes	**513**	478	460	429	375
Provision for taxes – Income Statement	**804**	840	757	662	560
Provision for taxes – Retained Earnings	**(237)**	(92)	10	9	(23)
Total government taxes and levies	**1,080**	1,226	1,227	1,100	912
Net income	**1,350**	1,305	1,168	986	825

INVESTMENT SPENDING

We define investment spending as (i) strategic acquisition spending (ii) capital spending on technology, and (iii) other capital spending. The illustration at right shows our relative spending in these three categories.

We spent $434 million on capital for technology purposes this year as part of our investment in alternate delivery channels, as we continue to create a modern banking environment. Strategic acquisitions in 1998 related to our acquisition of a 69% interest (49% voting) in Partners First, a credit card venture in the United States.

STRATEGIC ACQUISITION AND CAPITAL SPENDING



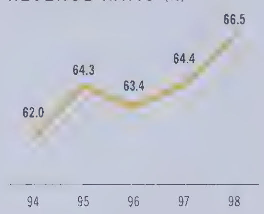
Note: Strategic acquisition spending represents the acquisition of an equity position or capital assets of another entity acquired for strategic purposes. Capital spending on technology includes capital assets purchased, less sales, for technology purposes and internal development expenses including salaries and other amounts for technology development reported in non-interest expense. Other capital spending represents net purchases of capital assets for purposes other than technology development.

PRODUCTIVITY

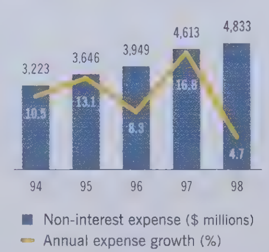
STRATEGY:
To achieve operational efficiency through a combination of effective cost management and strong revenue growth.

MEASURE:
Expense-to-revenue ratio, calculated as non-interest expense divided by total revenues, is our primary measure of productivity. The ratio is calculated on a taxable equivalent basis.

EXPENSE-TO-REVENUE RATIO (%)



NON-INTEREST EXPENSE AND ANNUAL GROWTH



STRATEGIC DEVELOPMENT SPENDING
Strategic development spending of $300 million in 1998 was directed to the following initiatives.

mbanx – expansion of virtual banking unit

Telephone banking – expansion of delivery channel services

Cebra – development of integrated digital commerce solutions

Pathways-Financial Growth Centres™ – development of educational delivery channels

See operating group sections for additional detail regarding these initiatives.

EXPENSE-TO-REVENUE RATIO OF 66.5%

Our expense-to-revenue ratio increased 210 basis points in 1998 to 66.5% as revenue growth of 1.4% was more than offset by expense growth of 4.7%. Our internal target is to improve productivity by reducing the expense-to-revenue ratio by 2% per annum. The reduction was not achieved in 1998 as a number of the drivers of reduced revenues had a relatively low level of associated expenses which resulted in a deterioration in the expense-to-revenue ratio. These included revenues from impaired loans and equities and bonds of lesser-developed countries, U.S. card revenues and the lower contribution from Bancomer. In addition, the decline in trading revenues was not matched by a similar decline in expenses. The reasons for the lower revenue growth are outlined on page 26, with expense growth discussed in more detail below.

Expense Growth at Lowest Level in Nine Years

Our secondary measure of productivity is year-over-year expense growth. Expense growth in 1998 was 4.7% compared to 16.8% last year. Contributing to expense growth this year were increased business volumes resulting from a strong North American economy, increased spending on strategic development and the foreign exchange impact of a lower Canadian dollar. Strategic development spending in the year was directed to the initiatives highlighted on the left of this page. The increase in the Canadian/U.S. dollar exchange rate impacted U.S.-based expenses reported in 1998 resulting in additional expenses of $69 million. Expense growth was offset by the impact of a $75 million charge recorded in the fourth quarter of 1997 for accelerated depreciation related to technology changes and costs to improve the efficiency of our credit process, as well as a decline in revenue-driven compensation.

CONTRIBUTION TO EXPENSE GROWTH (%)

For the year ended October 31	**1998**	1997
Strategic development spending	**2.1**	4.9
Foreign exchange impact	**1.5**	0.2
Charge	**(1.6)**	1.3
Revenue-driven compensation	**(0.8)**	5.3
Ongoing business volume growth, partially offset by productivity improvements	**3.5**	5.1
Total expense growth	**4.7**	16.8

If we examine expense growth in traditional non-interest expense categories (see table below), expense growth was lower in 1998 than 1997 in all categories. Salaries and employee benefits increased 1.6% in 1998, compared to 14.7% in 1997, due largely to reduced variable compensation in 1998. Premises and equipment expenses increased 6.2%, reflecting additional costs arising from our various expansion efforts, including mbanx and call centres. Communications expense increased 7.8% in 1998, reflecting the continued push into alternate delivery channels such as telebanking. The increase in other expenses of 11.3%, compared to 15.6% in 1997, was largely related to business development spending.

NON-INTEREST EXPENSE (year-over-year % increase)

For the year ended October 31	**1998**	1997	1996	1995	1994
Salary and employee benefits	**1.6**	14.7	10.6	11.3	7.9
Premises and equipment	**6.2**	26.0	6.9	13.3	3.4
Communications	**7.8**	12.4	5.6	15.5	9.1
Other expenses	**11.3**	15.6	4.4	17.3	27.7
Total non-interest expense	**4.7**	16.8	8.3	13.1	10.5

Note: For more information see Table 8 on page 59.

The expense-to-revenue ratio in 1997 was 64.4%, with revenue growth of 15.1% offset by expense growth of 16.8%. Expense growth in 1997 reflected the benefits of productivity improvements which were more than offset by strategic development spending and the $75 million charge.

OUTLOOK
Expense growth in 1998 of 4.7% was lower than in 1997 because of reduced spending on strategic development and lower business volume expense growth. Management expects to manage expense growth in relation to revenue growth in order to achieve productivity improvements.

™ Pathways-Financial Growth Centre is a trade mark of Bank of Montreal.

OPERATING GROUP REVIEW

NET INCOME GROWTH DRIVEN BY PERSONAL AND COMMERCIAL FINANCIAL SERVICES AND HARRIS REGIONAL BANKING

During 1998 our Global Treasury Group was reorganized, with the sales and trading lines of business transferred to Investment and Corporate Banking. The move brings the groups critical to providing integrated solutions for capital markets and treasury clients under common management. The remaining lines of business, primarily Asset Portfolio Management and our Risk Management Group, were placed in a new group called Portfolio and Risk Management Group.

The businesses and customers served by each of our operating groups during the past year are described in the accompanying group sections. All financial information included in these sections has been restated to reflect organizational changes in 1998.

Net income earned and the average assets held by each operating group are presented in the table below by geographic area.

- Personal and Commercial Financial Services net income increased 19.7% in 1998, driven by good volume growth and active expense management, partially offset by a decline in net interest margin.
- Electronic Financial Services net income decreased 59.5% in 1998, comprised of a 50.6% decline in income from technology-related businesses and a 68.8% decline in income from our equity investment in Bancomer. The lower income from technology-related businesses reflects continued strategic investments which resulted in expense growth that more than offset revenue growth from increased volumes. In addition, revenue growth was negatively impacted by foregone revenues following the sale of our U.S. card business to Partners First and the associated start-up losses from our equity position in this venture.
- Harris Regional Banking net income growth in 1998 was 23.4%, resulting from continued business momentum in corporate, private and community banking, augmented by the impact of the lower Canadian dollar relative to the U.S. dollar in 1998 compared to 1997.
- Investment and Corporate Banking net income was down 33.0% from 1997, as a result of a decline in revenues stemming from the negative impact of abnormal market conditions in the fourth quarter. Expense growth resulted primarily from costs incurred to support business growth in various markets.
- Portfolio and Risk Management Group net income decreased 18.9% from last year, with lower cash collections on impaired loans and lower earnings from equities and bonds of lesser-developed countries causing a decline in revenues.

Additional information is provided in the group sections that follow.

NET INCOME AND AVERAGE ASSETS BY OPERATING GROUP ($ millions)

For the year ended October 31	Personal & Commercial Financial Services 1998	1997*	Electronic Financial Services 1998	1997*	Harris Regional Banking (a) 1998	1997*	Investment & Corporate Banking 1998	1997*	Portfolio & Risk Management Group 1998	1997*	Corporate Support (b) 1998	1997*	Total Consolidated 1998	1997*
Net Income														
Canada	**603**	495	**18**	32	**0**	0	**88**	194	**89**	73	**(35)**	(259)	**763**	535
United States	**0**	0	**15**	39	**229**	186	**68**	57	**131**	138	**17**	103	**460**	523
Mexico	**0**	0	**21**	74	**0**	0	**0**	0	**1**	10	**0**	0	**22**	84
Other Countries	**46**	47	**10**	12	**0**	0	**31**	29	**17**	72	**1**	3	**105**	163
Total	**649**	542	**64**	157	**229**	186	**187**	280	**238**	293	**(17)**	(153)	**1,350**	1,305
Average Assets														
Canada	**63,379**	58,711	**7,081**	4,509	**0**	0	**40,304**	36,098	**12,353**	9,685	**(4,090)**	496	**119,027**	109,499
United States	**0**	0	**2,322**	2,436	**31,104**	25,849	**26,725**	25,408	**13,562**	9,852	**918**	733	**74,631**	64,278
Mexico	**0**	0	**724**	668	**0**	0	**0**	0	**830**	749	**0**	0	**1,554**	1,417
Other Countries	**68**	5	**50**	39	**0**	0	**28,353**	19,109	**3,747**	2,372	**20**	2	**32,238**	21,527
Total	**63,447**	58,716	**10,177**	7,652	**31,104**	25,849	**95,382**	80,615	**30,492**	22,658	**(3,152)**	1,231	**227,450**	196,721

* Restated to give effect to the current year's organization structure

(a) Harris in Canadian dollars based on Canadian GAAP including Harris Bankcorp, Inc., Harris Bankmont, Inc. (formerly Suburban Bancorp, Inc.), and the branches purchased from Household Bank in 1996. This represents Harris Regional Banking which excludes card services, operating services and Harris Bank International Corporation, included in Electronic Financial Services, and Harris Investment Management Corporation, included in Investment & Corporate Banking.

(b) Corporate Support includes any residual revenues and expenses representing the difference between actual amounts incurred and the amounts allocated to operating groups. Corporate Support also includes the impact of asset securitization, as described in more detail in the Capital Management section on page 50.

Basis of presentation of results of operating groups:
Expenses are matched against the revenues to which they relate. Indirect expenses, such as overhead expenses and any revenue that may be associated thereto, are allocated to the operating groups using appropriate allocation formulas applied on a consistent basis. For each currency, funds are transferred from any group with a surplus to any group with a shortfall at market rates for the currency and appropriate term. Segmentation of assets by geographic region is based upon the ultimate risk of the underlying assets. Segmentation of net income is based upon the geographic location of the unit responsible for managing the related assets, liabilities, revenues and expenses.

PERSONAL AND COMMERCIAL FINANCIAL SERVICES

RE-INVENTING RETAIL BANKING

Group Description:

It is the vision of Personal and Commercial Financial Services (PCFS) to be a premier provider of financial services, using innovative technology to provide customers with clear choices and alternatives in order to achieve an appropriate value proposition for each relationship. PCFS currently provides financial services to about six million households and commercial businesses across Canada, and in 1998 contributed 48.1% of our net income for the year and 27.9% of our total average assets.

Customer Profile:

PCFS provides a full range of financial products and services to Canadian individuals and small to medium-sized businesses in all market sectors. Changing demographics in the PCFS marketplace are causing a shift in customer focus to wealth management, investment and retirement planning. Our customers are increasingly knowledgeable and sophisticated and demand value on their terms for their banking business. Customers expect to build a relationship with us, moving past the individual transaction interaction from prior years. PCFS works in partnership with other operating groups, such as Electronic Financial Services and Investment and Corporate Banking, to provide the excellence of service and value-driven technology expected by customers.

Environmental Overview:

Low inflation and interest rates, together with reduced unemployment, are creating greater consumer demand for loans. However, an overall flattening of the yield curve, caused by short-term interest rate increases throughout 1998, put pressure on the net interest margin, mitigating the impact of loan growth on results. Competition in Canada is increasing, from both the global banking sectors as well as new non-bank and niche players. Increased competition leads to lower fees and places further pressure on spread. To address these various challenges PCFS key business strategies are aimed at meeting the needs of customers through the development of a competent workforce supported by value-driven technology.

KEY BUSINESS STRATEGIES:

- improve technology and access channels to enter new markets and reduce operating costs;
- improve knowledge management to profitably retain and grow customer relationships;
- redesign key processes; and
- further develop workforce competence in two distinct streams – sales and service management.

ACCOMPLISHMENTS IN 1998:

Improved Technology and Access Channels:

- **Announced agreements with The Great Atlantic and Pacific Company of Canada Limited and Canada Safeway Limited** to open in-store branches. In fiscal 1998, 10 in-store branches were opened. In-store branches have on-site financial experts to assist shoppers with personal financial services. Customers can arrange everything from mortgages to GICs in a private office environment that also has netbanking facilities and automated banking machines.
- **Installed 560 new InstaBank Extra® printers for ABMs** in the current year, providing customers with on-line access to detailed statement information.
- **Opened two additional Pathways-Financial Growth Centres,** providing a unique banking store where customers and non-customers alike can explore and implement solutions to their financial services needs in an interactive, friendly environment.
- **Commenced development of a National Telephone Service** strategy to improve the efficiency of our national customer service lines, with a focus on sales and inquiries. Implementation will extend into 1999.
- **Supplied mobile sales force** with technological access to retail products and services, enabling them to provide financial advice to customers anywhere and anytime. Facilities include access to sales tools, credit approval systems, e-mail, the Internet/Intranet and printers.

Improved Knowledge Management:

- **Introduced a customer knowledge-based decision** production system to provide timely and comprehensive information concerning existing customer profitability and retention.

Redesigned Key Processes:

- **Rolled out the Independent Business Credit Adjudication Processing System,** improving productivity in the commercial credit area. The reduced turnaround time assists in improving overall customer service and also provides lenders with additional capacity for business development.

Improved Sales and Service Management:

- **Enhanced PCFS management information tools,** aimed at monitoring individual sales performance to support a sales-focused environment. Also, tools were developed to improve identification of drivers associated with building customer loyalty and enabling the identification of opportunities to improve customer service.

® InstaBank Extra is a registered trade mark of Bank of Montreal.

- **Offered small and medium-sized enterprises a special financing program** with a choice of discounted loan options to assist in achieving year 2000 compliance.
- **Established Competix**, a joint venture with American Management Systems and Emfisys™, part of Corporate Support, to provide personal and small business loan processing services to small and medium-sized U.S. financial institutions.
- **Formed Corporate Finance Teams** in Toronto, Vancouver and Montreal to deliver leading edge financial engineering solutions, capital market alternatives and loan syndications.
- **Developed the Private Client Service Promise**, a service branding initiative undertaken by PCFS Personal Trust and Investment Assets Services aimed at being recognized as the premier supplier of banking, trust and investment services to high net worth individuals in the Canadian marketplace.
- **Introduced a market-indexed GIC/RIC** with a return linked to market indices, allowing customers to participate in the stock market without the inherent risk of loss of principal.

FINANCIAL RESULTS

Net income for PCFS was $649 million, up 19.7% from 1997.

Total revenue growth of 5.8% was generated by loan volume growth, driven by product and channel initiatives coupled with continued customer demand in response to favourable economic conditions. However, the impact of increased assets was partially offset by narrower spreads in the Canadian retail market. Although spreads experienced a steady improvement throughout 1998, the average for the year was still below the 1997 average due to a significantly flatter yield curve in 1998 relative to 1997. Other income increased 6.8% due to mutual fund commissions, higher estate and trust income and activity fees.

A second factor driving growth in profitability was continued expense management which kept expenses at the 1997 level despite the increase in business volume. The migration of customers to lower-cost channels, the enhancement of knowledge management tools and the streamlining of our lending decision processes all helped to contain costs.

The provision for credit losses decreased from $104 million to $85 million in 1998 largely due to lower loan losses in the commercial portfolio.

Expense management and revenue growth resulted in an improved expense-to-revenue ratio of 56.3% for 1998, compared with 60.2% in 1997.

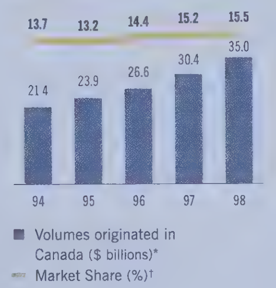
On a comparative basis, in 1997 business volume growth and strong expense control, partially offset by lower year-over-year margins, drove net income of $542 million. Revenue growth of 3.7% was made possible by strong loan volume, fee and other commissions growth, partially offset by narrower margins. Expense growth of 5.7% in 1997 reflected several key investment and capacity creation initiatives, such as branch rationalization, organizational streamlining, workflow innovation, automation of commercial and personal lending decisions, and migration of transactions to automated channels.

PERSONAL AND COMMERCIAL FINANCIAL SERVICES ($ millions except as noted)

As at or for the year ended October 31	1998	1997*	1996*	1995*	1994*
Net interest income	**2,242**	2,123	2,082	2,087	2,020
Other income	**559**	524	470	480	450
Provision for credit losses	**85**	104	77	52	78
Non-interest expense	**1,578**	1,592	1,506	1,524	1,477
Income before taxes	**1,138**	951	969	991	915
Income taxes	**489**	409	412	425	402
Net income	**649**	542	557	566	513
Average assets	**63,447**	58,716	55,266	52,397	48,939
Average current loans	**60,175**	54,720	50,266	47,134	42,953
Average deposits	**57,694**	56,425	52,539	50,711	47,882
Full-time equivalent staff (a)	**12,580**	13,303	NA	NA	NA
Expense-to-revenue ratio (%)	**56.3**	60.2	59.0	59.3	59.8

* Restated to give effect to the revised 1998 organization structure
(a) As at October 31
NA – Not available

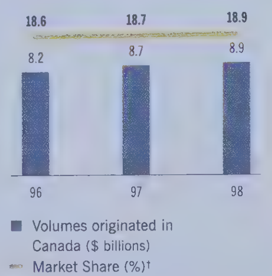
RESIDENTIAL MORTGAGES



* Including those sold to securitization vehicles

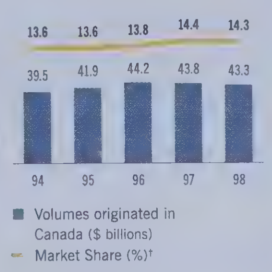
† Based on Canadian Bankers Association (CBA) statistics: 1998 – August 31; 1994-97 – October 31; includes all residential mortgages administered in Canada, including those sold to securitization vehicles or owned by third parties.

LOANS TO SMALL AND MEDIUM-SIZED BUSINESSES



† CBA: 1998 as at March 31; 1996-97 as at Sept. 30; 1994-95 – NA

TOTAL PERSONAL DEPOSITS



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† CBA: as at October 31

ELECTRONIC FINANCIAL SERVICES

THE FUTURE OF ELECTRONIC BANKING IS HERE

Group Description:

Electronic Financial Services (EFS) is made up of diverse North American businesses that share a mandate to define the future of electronic banking through new technologies, distribution channels and the leveraging of information. Consumer-oriented lines of business include mbanx, North America's first virtual banking unit, telephone and Internet banking services for PCFS customers, and Electronic Banking Services, which encompasses credit, debit and smart cards. Corporate lines of business include North American Cash Management (NACM) which serves clients through Bank of Montreal, Harris Bank and Bancomer, BMO Global Custody, International Operating Services, and Cebra Inc., our digital commerce subsidiary. EFS also includes our 16.2% interest in Grupo Financiero Bancomer. The real strength of EFS comes from connecting our organizational culture and core competencies across all of our lines of business and geographical boundaries, particularly throughout the three NAFTA countries. In 1998, EFS contributed 4.7% to our total net income and represented 4.5% of our total average assets.

Customer Profile:

EFS customers are diverse, consisting of both retail and corporate clients. Customers are offered a choice of access channels, including Internet, telephone and ABMs. EFS balances a strong focus on technological innovation with a unique values-based culture to build lasting relationships with our clients.

Environmental Overview:

Virtually all facets of the financial services environment are changing, including the technology available to both customers and financial institutions, the regulatory environment, and the competitive environment, which is expanding to include many more focused niche players. As a result, customer needs are changing and many more options are becoming available to them. EFS has identified four business strategies that enable us to meet and exceed customer needs in this new world of multiple channels, customer choice and information.

KEY BUSINESS STRATEGIES:

- develop a deeper knowledge and understanding of our clients;
- continue to look for innovative applications of technology;
- leverage our technology and customer knowledge to architect customer solutions; and
- create value through strategic alliances.

ACCOMPLISHMENTS IN 1998:

Developed Deeper Client Understanding

- **mbanx continued to grow** its client base with 151,700 customers signed on by the end of fiscal 1998. Clients that value service and convenience continue to be attracted to our innovative relationship banking. The launch of "my view" allows clients to customize their web sites to their individual needs and reflects mbanx' commitment to deliver truly personalized service.
- **mbanx achieved a customer satisfaction rating of 95%,** compared to a bank industry average of 88%. This reflects mbanx' ability to offer service levels that consistently exceed client expectations, thereby fostering unprecedented client loyalty.
- **MasterCard®'s Management by Account initiative** allows us to better understand and meet customer credit card needs. Investments in data warehouses, data-mining, and analytic talent have facilitated the development of customized products and services.

Introduced Innovative Applications of Technology

- **New functionality was added to the on-line MasterCard web site,** allowing cardholders to use self-serve secure Internet web pages to check account balances, examine recent transactions, review statements and make special requests, such as credit limit increases and address changes.
- **mbanx implemented advanced contact centre technologies,** including agent desktop facilities, document imaging and Computer Telephony Integration. These technologies, combined with mbanx' value-based service, have led to visits from companies all over the world who consider mbanx to be best in class.
- **NACM introduced new Imaging Services** applications that allow clients to streamline their back-office processes. Clients can dial in and download information required for making credit decisions and other cash applications. In addition, Viewlink™ Image Positive Pay Workstations enable clients to control fraud by making on-line, pay/no-pay decisions.

Architected Customer Solutions

- **Cebra's MERX™ Internet-based tendering service** has experienced strong growth and has issued 200,000 bid documents for government procurement. Cebra and Public Works & Government Services Canada were awarded a gold medal for excellence for MERX at the Government in Technology Distinction Awards, highlighting Cebra's co-operation with government partners.
- **Growth in the corporate card market is accelerating** as we leverage leading-edge technology solutions and EFS' market position in commercial segments. Our tailored

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® Bank of Montreal is a registered user of the trade mark owned by MasterCard International Inc.
™ MERX is a trade mark of Cebra Inc.

solutions include electronic payment, elimination of invoices, customized electronic reporting, and electronic integration to general and sub-ledgers for up to 70 top tier Canadian organizations.

- **The NACM Wholesale Lockbox Network** operating in Toronto and Chicago extended its reach to Atlanta and Los Angeles (the latter opened in December 1998). This expanded image-enabled network allows us to match our clients' optimum payment receipt patterns and help them digitally integrate their back-office processes, generating greater cost efficiencies.

Created Value through Strategic Alliances

- **An alliance was formed between NACM and CheckFree® Corporation**, a recognized electronic commerce leader, for automated clearing house processing. CheckFree will support the back-office systems and technical components of processing, while we continue to leverage our expertise in product development and exceptional customer service. The resulting economies of scale will provide expanded functionality for our clients.
- **Cebra partnered with Canada Post** to provide a secure Electronic Post Office™ service, whereby Canadian businesses and consumers will be able to receive all types of mail electronically and pay their bills over the Internet.

FINANCIAL RESULTS

Net income for the year was $64 million, comprised of earnings from technology-related businesses of $40 million and earnings from our equity investment in Bancomer of $24 million.

EFS net income from technology-related businesses decreased $40 million in 1998. This resulted from $16 million in foregone income following the sale of our U.S. card business to Partners First and the associated start-up losses arising from our equity position in this venture. The remaining decrease of $24 million was due to expense growth of 17%, which more than offset revenue growth of 8% in our technology-related businesses. This revenue growth reflected strong volume growth in mbanx, and higher non-interest revenues from the Canadian merchant and retail card businesses, partly offset by narrower credit card margins due to intense competition from new foreign competitors. Corporate EFS benefited from higher foreign exchange gains, strong growth in NACM and the success of Cebra's new product offerings. Higher expenses relate to investments in people and technology to expand the reach of alternate delivery channels and other initiatives for growth, many of which have been highlighted in our strategic accomplishments.

Net income and revenue from Bancomer declined $53 million in 1998 primarily due to the unsettled global economic conditions and slower growth in the Mexican economy.

EFS as a whole experienced reduced credit losses, primarily due to the sale of the U.S. card business. EFS expense-to-revenue ratio was 82.0%. Excluding Bancomer and the U.S. card business, the ratio increased to 82.7% from 76.1% last year due to continued spending on strategic initiatives and increased competition in the Canadian credit card market, which put pressure on revenues.

1997 net income of $157 million decreased by $14 million from 1996 primarily because of major investments in alternate banking channels. Revenue growth of 16.2% was driven by an increased contribution from Bancomer ($31 million) and by revenues from the credit card and corporate lines of business. Higher expenses reflected investments in technology and personnel to support the alternate delivery channels. The increased provision for credit losses was in response to an increasing level of personal bankruptcies.

ELECTRONIC FINANCIAL SERVICES ($ millions except as noted)

As at or for the year ended October 31	1998	1997*	1996*	1995*	1994*
Net interest income	**428**	574	495	375	331
Other income	**498**	471	404	378	372
Provision for credit losses	**74**	138	96	61	65
Non-interest expense	**759**	681	538	524	486
Income before taxes	**93**	226	265	168	152
Income taxes	**29**	69	94	69	64
Net income	**64**	157	171	99	88
Net income excluding Bancomer	**40**	80	125	99	88
Average assets	**10,177**	7,652	5,964	5,050	4,459
Average current loans	**7,238**	5,519	4,852	4,527	4,228
Average deposits	**8,092**	6,665	5,364	4,631	4,543
Assets under administration	**179,750**	169,743	149,287	130,012	120,748
Full-time equivalent staff (a)	**3,603**	3,583	NA	NA	NA
Expense-to-revenue ratio (%)	**82.0**	65.2	59.8	69.5	69.2

*Restated to give effect to the revised 1998 organization structure
(a) As at October 31
NA – Not available

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® CheckFree is a registered trade mark of CheckFree Corporation.

HARRIS REGIONAL BANKING

CENTREPIECE OF OUR AMERICAN STRATEGY

Group Description:

Harris Regional Banking (Harris) is composed of three integrally linked lines of business in which geographic proximity to the customer, i.e., "location", matters. The three lines are Chicagoland (Chicago and its surrounding communities) Banking, comprising community banking, private banking and small business/lower middle-market banking; Corporate Banking, comprised of Harris' distribution to middle-market companies across the U.S. Midwest and nationally in selected specialties; and Corporate Trust, composed of national stock transfer and indenture trust distribution. Harris possesses the third-largest community banking network in Chicagoland, is the second-largest provider of personal trust and banking services in Chicagoland, the fourth-largest corporate bank in the Midwest, the fifth-largest stock transfer and ninth-largest bond indenture provider in the United States. Harris is the centrepiece of our U.S. strategy, providing 17.0% of our total net income in 1998, and holding 13.7% of our total average assets.

Customer Profile:

Harris serves individuals, small and lower mid-market businesses, middle-market businesses, specialty industries and not-for-profit and government entities located in Chicagoland and throughout the U.S. Midwest. Harris provides stock transfer and bond indenture services throughout the United States. Harris also provides wealth management services nationally, with an emphasis on Florida, Arizona and the U.S. Midwest.

Environmental Overview:

The U.S. Midwest, and in particular the Chicagoland market, represents an exceptional market opportunity; a diversified, high-technology and export-oriented economy with a gross domestic product twice as large as that of Canada. This region is inextricably linked with Canada, with more than a third of trade between Canada and the United States transacted with enterprises in the Midwest. Harris is based in Chicagoland, the third-largest metropolitan market in the United States with a population of approximately 8 million people. Despite the size and potential of the market, financial services providers are highly fragmented and customers are underserved. Customers are unaccustomed to receiving the "traditional" services of a sophisticated retail network, such as convenient access to a full range of financial services. Chicagoland is still underdeveloped as a result of historically restrictive state branching regulations. In order to maximize shareholder return and customer service quality, from this unique market opportunity, Harris has identified the key business strategies mentioned below.

KEY BUSINESS STRATEGIES:

- expand our Midwest middle-market corporate banking franchise;
- build and expand a Chicagoland retail banking franchise and "win" Chicagoland, while expanding wealth management in Arizona and Florida; and
- continue structural cost reductions through North American integration and standardized processes.

ACCOMPLISHMENTS IN 1998:

Expanded our Midwest Middle-Market Corporate Banking Franchise

- **Transformed from "credit bankers"** into financial advisors and distributors of all Harris' services, including products and services provided by other Harris lines of business. This resulted in strong loan growth of $1.7 billion or 23% over last year and related syndication, and other fee revenues of $41.6 million.

Built and Expanded the Retail Franchise

- **Harris' retail market share in Chicagoland has increased** from 2.7% in 1994 to a current level of 8.2%. This increased market share is the result of providing a "network level" of financial services that have produced higher customer satisfaction scores and sales revenue.
- **Harris expanded operations in Florida** by converting the former Harris Trust Company of Florida, which has been providing trust and investment services in Florida for 15 years, into an institution with full banking powers. This established a strategic base in the U.S. South to serve the "snowbird" market and increasing numbers of companies relocating employees southward.
- **Loans increased at above market rates, while deposit volumes grew** at double the market rate as Harris remains on track to meet the goal of 1 million profitable customers by the year 2002.
- **Internet/PC Banking is now available** to all community bank customers, offering greater convenience of access.

Continued Structural Cost Reductions

- **US$60 million reduction in overhead goal** has been achieved. Harris is now focused on the standardization and integration of support and line functions on a North American basis. The goal is to continue to reduce fixed costs by US$20 million per annum.
- **Harris established common operating utilities**, which eliminated redundancies and reduced costs. These utilities provide more consistent delivery and access to the full range of network services from every location, and include standardized processes for Harris' business and consumer lending, call centre, mortgage lending and servicing, and small business centre.

FINANCIAL RESULTS (all dollar amounts are in Canadian dollars)

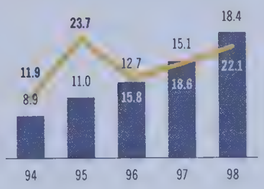
Net income of $229 million increased 23.4% over 1997, continuing the good growth shown last year, with loans up 22.1% from $15,070 million in 1997. Revenues increased 23.9% from 1997, resulting from volume increases in corporate, private and community banking loans, as well as securities gains, higher revenues from trust and syndication fees and income from other customer services. Non-interest expenses increased by $149 million, or 21.8%, in 1998 as a result of expanding banking operations, and the resulting business growth. The provision for credit losses increased to $37 million in 1998 as a result of loan volume growth and the impact of the U.S./Canadian dollar exchange rate.

Both revenues and expenses were affected by the U.S./Canadian dollar exchange rate because virtually all of Harris' business transactions are in U.S. dollars. These amounts are converted from U.S. dollars to Canadian dollars for reporting purposes. As a result, the movement in the exchange rate from an average rate of $1.38 in 1997 to an average rate of $1.47 for 1998 affects the comparison of 1998 results to those of 1997. If we exclude the exchange rate impact, revenues increased 15.9% and non-interest expenses increased 13.9%.

Harris' expense-to-revenue ratio was 67.0% for 1998, compared to 68.1% in 1997. This improvement is the result of revenue growth of 23.9%, driven by volume growth and expansion, exceeding the increase in non-interest expense of 21.8%, which also reflected the costs of expansion.

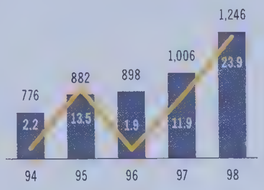
Net income of $186 million in 1997 rose 17.1% over 1996. This increase was driven by revenue growth of 11.9% due to the acquisition of Household Bank in June 1996, and strong increases in loan and deposit volumes, partly offset by a decline in the net interest margin. Non-interest expense increased 12.1% in 1997, caused primarily by the costs of acquiring, operating and integrating the Household Bank locations into the Harris retail network, and by volume growth across all lines of business.

AVERAGE CURRENT LOANS AND ANNUAL GROWTH



■ Average current loans ($ billions)
— Annual growth (%)

TOTAL REVENUE AND ANNUAL GROWTH



■ Total revenue ($ millions)
— Annual growth (%)

HARRIS REGIONAL BANKING ($ millions except as noted)

As at or for the year ended October 31	**1998**	1997*	1996*	1995*	1994*
Net interest income	**823**	703	622	569	444
Other income	**423**	303	276	313	332
Provision for credit losses	**37**	13	28	36	35
Non-interest expense	**834**	685	610	587	624
Income before taxes	**375**	308	260	259	117
Non-controlling interest in subsidiary (a)	**11**	0	0	0	0
Income taxes	**135**	122	102	97	34
Net income	**229**	186	158	162	83
Average assets	**31,104**	25,849	23,032	20,477	16,936
Average current loans	**18,406**	15,070	12,710	10,980	8,879
Average commercial loans	**12,667**	10,787	9,669	8,583	7,230
Average deposits	**20,656**	17,931	16,468	14,737	12,243
Assets under administration (b)	**111,521**	89,424	71,804	247,160	197,306
Assets under management	**40,475**	32,936	24,381	39,221	19,222
Full-time equivalent staff (c)	**6,417**	6,262	NA	NA	NA
Expense-to-revenue ratio (%)	**67.0**	68.1	68.0	66.5	80.4

*Restated to give effect to the revised 1998 organization structure

(a) This represents dividends paid to holders of publicly-traded preferred shares issued by Harris Preferred Capital Corporation, a Real Estate Investment Trust incorporated in 1998. All common stock of this company is owned by Harris.

(b) The decrease in assets under administration at October 31, 1996 reflects the sale of Harris' securities custody and related trustee services business for large institutions in January 1996.

(c) As at October 31

NA – Not available

HARRIS BANK‡

Harris Bank contributed 20.9% of total net income in 1998.

- Key 1998 results for Harris Bank include:
  (US$, Canadian GAAP)
  Net income increased 11.5%;
  Non-interest income increased 14.7%;
  Loans grew 7.8%.
- Rapidly expanding retail/wealth management business with retail market share in Chicagoland tripled to 8.2% in 1998 from 2.7% in 1994.

‡Harris Bank includes Harris Regional Banking, Harris Electronic Financial Services and Harris Global Asset Management

INVESTMENT AND CORPORATE BANKING

DELIVERING CUSTOMIZED, INNOVATIVE, FINANCIAL SOLUTIONS

Group Description:

The Investment and Corporate Banking (I&CB) group includes the Nesbitt Burns Group of Companies, Global Treasury and Trading, Global Corporate Banking, Asset Management Services and the Merchant Bank. Nesbitt Burns is one of Canada's pre-eminent investment banks. It offers a full range of financial products and services to individual investors and, together with Global Corporate Banking, offers products to address the capital and advisory needs of our corporate, government and institutional clients. Treasury provides foreign exchange, money market, derivative products, loan underwriting and syndication services to the client base of the Bank of Montreal Group of Companies. Asset Management Services offers a full range of mutual funds, discount brokerage service (InvestorLine® service), trust products and investment management services. The Merchant Bank is a private equity investment business with other ancillary services. In 1998, I&CB contributed 13.9% of our total net income and 41.9% of our total average assets.

Customer Profile:

The I&CB customer base is broad and expansive. The Nesbitt Burns group provides financial advisory, research and customized services to corporate, government, institutional and individual clients. Treasury focuses on providing tailored solutions to our North American corporate and institutional clients and provides European and Asian clients with access to the North American market. Treasury also services the needs of our retail and commercial customer base. Asset Management Services delivers an array of financial product and service offerings to both private and institutional clients. The Merchant Bank and Global Corporate Banking units focus their services on a broad range of corporate clients.

Environmental Overview:

I&CB operates in an intensely competitive environment with an ever-increasing number of North American and global participants. Its primary goal is to foster a creative, professional and multi-disciplined environment to attract, hire and retain outstanding personnel. I&CB concentrates on the development of specialized business units that offer differentiated and focused services and capabilities to satisfy a variety of customer needs and expectations. It invests heavily in education, technology and knowledge-specific programs. As I&CB continues to strengthen its specialized lines of business, the challenge is to deliver seamless cross-border products and services to clients in North America and selected international markets.

KEY BUSINESS STRATEGIES:

- solidify leading market share for specific investment and corporate banking activities in Canada;
- continue to align and integrate all I&CB functions to more effectively cater to customer needs;
- expand market penetration of wealth management offerings;
- expand the scope of Global Corporate Banking;
- continue the development of derivatives core competencies;
- continue to build the Merchant Bank; and
- continue to attract and retain best-in-class personnel.

ACCOMPLISHMENTS IN 1998:

Solidified Investment Banking Market Share Positions

- **Maintained leading market share** position in the mergers and acquisitions advisory business, block trading of Canadian equities and top Research ranking.

Continued to Align and Integrate I&CB Functions

- **Integrated bankwide trading centres** thereby enhancing core competency development.
- **Effective alignment of Global Corporate Banking, Nesbitt Burns Investment Bank and Global Treasury** resulted in the provision of innovative, comprehensive and customized financing solutions for targeted clients.

Expanded Wealth Management Offerings

- **Launch of the Nesbitt Burns Quadrant Program™** enabled Nesbitt Burns Investment Advisors to tailor portfolios to client-specific objectives and risk profiles using six different funds managed by Primus Capital Advisors. Client needs are assessed using Nesbitt Burns Pathfinder® program and assets are managed to ensure they are appropriate for client needs in various market environments.
- **Introduced the Nesbitt Burns Mutual Fund Mosaic™ mutual fund system,** which is designed to help investors determine the most appropriate fund and optimal asset mix to deliver the anticipated return within acceptable risk levels. The Mosaic service represents a significant advancement in mutual fund selection and is available exclusively to Nesbitt Burns private clients with a minimum investment of $25,000.
- **Introduction of the investore® Mobile** and four new investore offices in London, Hamilton, Calgary and Vancouver. These retail outlets are designed to respond to the needs of Canadians who want more investment

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™ Nesbitt Burns Quadrant Program and Nesbitt Burns Mutual Fund Mosaic are trade marks of The Nesbitt Burns Corporation Limited/La Corporation Nesbitt Burns Limitée, used under licence.
® Nesbitt Burns Pathfinder is a registered trade mark of The Nesbitt Burns Corporation Limited/La Corporation Nesbitt Burns Limitée, used under licence.

advisory information. The investore Mobile travels to local communities offering clients a complete range of money management products and services.

- **Launch of In•Tuition™ plan**, a new Registered Education Savings Plan product. In•Tuition includes an interactive diskette to assist parents in developing their own personalized education savings plan. The In•Tuition portfolio offers diversified investments to give parents the best way to save and to combat the rising cost of post-secondary education.

Expanded the Scope of the Global Corporate Banking Unit

- **Participated in a number of large corporate transactions in 1998** serving as either sole advisor/financier or as a significant syndicate member. Some of the transactions that I&CB has been involved in included project financing for the acquisition of electric generating equipment, a synthetic lease of oil and gas field equipment and financing for gas pipelines.

Developed Derivatives Core Competencies

- **Expanded and strengthened our derivatives capabilities** with the establishment of a Credit Derivatives group to complement the underwriting and trading businesses. I&CB also solidified its foreign exchange options presence through geographic expansion and developed innovative products to meet customer needs. The capabilities of I&CB's Natural Resources Commodity Derivatives group were also expanded so as to serve its client base more effectively.

Continued to Build the Merchant Bank

- **Added a number of attractive investments** to the Merchant Bank's portfolio of private equity investments and took the opportunity to harvest a successful investment in a technology company.

Continued to Attract Best-in-Class Personnel

- **Maintained an aggressive recruiting initiative** throughout 1998 to attract top-quality candidates in each of the I&CB business units.
- **Ensured that I&CB had market-competitive** pay practices to both attract and retain top-quality individuals into its business units.
- **Continued I&CB's comprehensive professional development program** to develop and refresh skills in core knowledge areas.

FINANCIAL RESULTS

Net income of $187 million in 1998 represented a decline of $93 million or 33.0% from 1997. Revenues declined 1.3% during the year primarily reflecting net trading losses of $139 million incurred in the fourth quarter of 1998. These losses were largely a result of abnormal market conditions which adversely impacted credit spreads and reduced liquidity in the corporate debt markets. The trading losses occurred principally in our North American debt securities portfolios. This decline was partly offset by growth in various other lines of business within I&CB. In particular, Nesbitt Burns corporate finance and merger and acquisition revenues reached record levels. Jones Heward and First Canadian® funds, which form part of Asset Management Services, both experienced increased fee revenue due to higher volumes and a disproportionately higher mix of long-term assets. Within Treasury, revenue growth came primarily from foreign exchange and derivative products which benefited from volatility in interest rates and currency markets. The Merchant Bank was successful in 1998 realizing a gain on the sale of one of its initial investments.

Expenses were up 11.2% from 1997 mainly due to costs incurred to support business growth in various markets including Asset Management Services, fixed income, loan underwriting and syndication activities, as well as costs for enhancements to our risk management and technology capabilities including year 2000 expenditures. The increase in expenses was offset in part by lower variable compensation. On balance, I&CB's expense-to-revenue ratio increased to 82.3% in 1998 from 73.0% in 1997.

Revenues increased 27.8% in 1997 compared to 1996 due to the success of key growth strategies and the impact of a buoyant capital market, in particular, more new equity issues and increased secondary trading volumes. Non-interest expense increased 26.3% in 1997, largely because of increased revenue-driven compensation.

INVESTMENT AND CORPORATE BANKING

ASSETS UNDER MANAGEMENT AND ADMINISTRATION AND ANNUAL GROWTH

INVESTMENT AND CORPORATE BANKING ($ millions except as noted)

As at or for the year ended October 31	1998	1997*	1996*	1995*	1994*
Net interest income	**365**	285	192	171	142
Other income	**1,430**	1,534	1,232	860	600
Provision for credit losses	**0**	1	0	0	6
Non-interest expense	**1,477**	1,328	1,052	801	532
Income before taxes	**318**	490	372	230	204
Income taxes	**131**	210	164	106	89
Net income	**187**	280	208	124	115
Average assets	**95,382**	80,615	53,584	45,563	32,681
Average current loans	**31,573**	25,279	14,879	11,992	9,215
Securities purchased under resale agreements	**27,160**	21,379	12,514	10,236	7,997
Average deposits	**65,087**	49,891	38,389	34,604	27,178
Assets under administration	**51,102**	41,919	34,176	26,289	22,005
Assets under management	**16,565**	16,516	10,597	8,488	8,987
Full-time equivalent staff (a)	**5,137**	4,915	NA	NA	NA
Expense-to-revenue ratio (%)	**82.3**	73.0	73.9	77.8	71.8

*Restated to give effect to the revised 1998 organization structure
(a) As at October 31
NA – Not available

WEALTH MANAGEMENT:
The wealth management business is a key priority for the Bank of Montreal Group of Companies reflecting very favourable demographic trends and our strong expertise in retail financial advisory markets on both sides of the border. The wealth management business has a broad reach across several entities within the Bank of Montreal Group which combine to offer a significant range of products and services.

Wealth management efforts are focused along four lines:

- mutual funds and other packaged products;
- retail wealth management services provided by the full-service brokerage division of Nesbitt Burns;
- discount brokerage operations; and
- institutional money management.

The mutual fund family encompasses a combination of no-load and load funds including: First Canadian Funds, Harris Insight Funds, Jones Heward Funds and Nesbitt Burns Funds. The growth of the funds was fueled by our innovative product packaging and distribution capabilities. Matchmaker®, a strategic asset allocation product launched in 1997, continues to enjoy great success. All of our funds are distributed through proprietary channels.

Wealth management products and services are delivered to high net worth clients on a bundled or unbundled basis through a combination of discretionary and non-discretionary products and services. Nesbitt Burns has 1,400 investment advisors who provide full-service investment advice from 140 offices across Canada. As well as traditional investment products, Nesbitt Burns offers a wide range of proprietary products, including management account programs and Nesbitt Burns Pathfinder, a comprehensive investment and retirement planning program. In addition we offer investment products and services through Harris Trust in the United States, and through Bank of Montreal Private Client Services, Jones Heward, The Trust Company of Bank of Montreal and InvestorLine®.

InvestorLine, offered by our discount brokerage subsidiary Bank of Montreal Investor Services Limited, provides clients in Canada with direct electronic access to their trading accounts.

Institutional money management is conducted through Jones Heward Investment Counsel and Harris Investment Management, Inc. Teams of investment counselors manage pension funds, endowments and other large corporate investment programs.

® Matchmaker and InvestorLine are registered trade marks of Bank of Montreal.

PORTFOLIO AND RISK MANAGEMENT GROUP

MODERNIZATION OF PRACTICES AND PROCESSES TO STRENGTHEN THE BUSINESS

Group Description:

Portfolio and Risk Management Group (P&RMG) is a new group formed in 1998 following a series of initiatives to modernize portfolio and risk management practices.

P&RMG is comprised of: Risk Management Group, Asset Portfolio Management, Collateralized Bond Obligation Group, and Global Financial Institutions & Governments including Trade Finance. Risk Management Group brings together risk management and the corporate treasury function on an enterprise-wide basis under one umbrella. Risk Management Group also incorporates risk management policy functions, including its independent enterprise-wide mandate of maintaining an appropriate risk-return relationship by identifying, pricing and managing risk. For additional information on our risk management process, please refer to page 43.

Asset Portfolio Management, through the application of sophisticated portfolio management techniques to optimize portfolio performance, manages corporate and institutional loans and securities portfolios, including the retained components of originated financings. They also support the origination efforts of the client coverage group, and manage credit risk taken by Global Treasury in its trading activities. The Collateralized Bond Obligation† Group uses state-of-the-art risk management techniques to provide investors in high-yield instruments with leading-edge portfolio management services. Global Financial Institutions & Governments actively manages relationships with government and international financial institution segments, and also serves the needs of those corporate clients with international interests or Trade Finance requirements.

P&RMG contributed 17.6% of our total net income in 1998, and accounted for 13.4% of our total average assets.

Environmental Overview:

Financial markets have made tremendous progress in dissecting, quantifying and managing risks. However, a number of dynamics are setting the stage for new risks and increasing the complexity of managing business risks for providers of financial services: growing sophistication of markets and products; the breakneck speed of technological innovation; growing electronic information traffic; soaring transaction volumes; and increased dependence on liquidity. These new risks demand new ways of thinking, and the challenge for financial institutions is in developing an in-depth understanding of the relationship between risk measurement, capital allocation and reward.

Disintermediation of traditional banking activities continues to prevail, most recently in the large corporate loan market. Bank loans have emerged as a distinct trading class over the past several years, and sophisticated portfolio management teams are emerging within banks to take advantage of this trend. Asset portfolios are optimized using portfolio data, state-of-the-art tools and analytic models. P&RMG has identified key business strategies to address the complex environment and business issues it faces.

KEY BUSINESS STRATEGIES:

- establish an enterprise-wide risk management function to maintain an appropriate risk-return relationship;
- diversification of the corporate asset portfolio through originated and investment assets and securities that meet our risk-reward parameters;
- build our collateralized bond obligation (CBO) portfolio to US$3 billion by the end of fiscal 1999;
- leverage process improvements and client coverage techniques to intensify the focus on value-added sales and distribution for Global Financial Institutions & Governments and Trade Finance;
- retain, attract and develop teams of professionals who are leaders in the field of portfolio and risk management.

ACCOMPLISHMENTS IN 1998:

Established an Enterprise-Wide Risk Management Function

- **Risk Management Group was formed**, bringing together enterprise-wide credit, market, operational and liquidity risk management under one umbrella to optimize risk and return.
- **Implementation of the Value at Risk (VaR) model** continued, with the aim of introducing an open, flexible system to provide risk management tools that will allow a thorough understanding of risk and facilitate new product introductions.

Diversified the Corporate Asset Portfolio

- **Portfolio Management's global reputation in debt portfolio management** was instrumental in the completion of a US$3 billion collateralized loan obligation, our first such transaction. The issue, led by Goldman Sachs and Nesbitt Burns, met with strong investor demand and was oversubscribed. The transaction, which securitized loans granted to a wide spectrum of large corporate borrowers, was also significant as part of the continued pro-active management of our capital and balance sheet.

† Defined in the Glossary on page 92

PORTFOLIO AND RISK MANAGEMENT GROUP

Built our CBO Portfolio to over US$2 Billion

- **A second collateralized bond obligation deal** (referred to as FC CBO II) for US$1 billion closed in 1998, adding to the first US$1 billion (FC CBO) established last year. At present, the CBO portfolio has just over US$2 billion in assets under management, which ranks the CBO Group among the largest high-yield managers in Canada and among the Top 25 in the world. In the first year the group generated returns approximately 100 basis points higher than all published high-yield indices, which would rank in the top quartile of all funds that publish their results.

Leveraged Process Improvements

- **Commenced implementation of a credit process redesign in 1998.** The first phase of one component of this redesign, referred to as the Bank Model, streamlined the credit approval process for financial institutions. The initiatives accompanying this Model improved cycle and response times dramatically and reduced infrastructure costs while enabling relationship managers to focus on serving client needs. These benefits have been attained while maintaining risk levels within appropriate parameters.
- **Responded to the needs of large and smaller exporters** in North America by providing risk mitigation and financing for their sales to dynamic and complex international markets during a period of increased economic uncertainty.

Retained, Attracted and Developed Teams of Professionals

- **Market-competitive compensation plans** for all groups in P&RMG have been developed to augment the performance measurement and reward process for employees. An executive has been appointed to develop the necessary learning programs to achieve best-in-class status.

FINANCIAL RESULTS

P&RMG's net income of $238 million was down 18.9% from 1997, caused largely by lower revenues. Decreases in revenue were due to lower cash collections on impaired loans of $75 million. Revenues earned from the equities and bonds of lesser-developed countries slowed in the current year to $17 million compared to $121 million in 1997. Revenues from these sources continue to decline due to reduced exposure in these portfolios. These lower revenues were partially offset by higher revenues from the corporate asset portfolio, including trade finance.

Expenses decreased 17.8% in the current year due to the reorganization that resulted from our credit process redesign. The lower provision for credit losses is the result of higher recoveries in 1998.

P&RMG's expense-to-revenue ratio increased to 28.3% in 1998 from 27.2% in 1997. This resulted from the 21.0% decrease in revenues, exceeding the decrease in expenses.

Net income of $293 million in 1997 was driven by significant revenue growth from cash collections on impaired loans, due to the improved North American economy, and also by increased revenue from equities and bonds of lesser-developed countries.

PORTFOLIO AND RISK MANAGEMENT GROUP ($ millions except as noted)

As at or for the year ended October 31	**1998**	1997*	1996*	1995*	1994*
Net interest income	**469**	572	403	408	439
Other income	**91**	138	145	121	143
Provision for credit losses	**(16)**	2	(22)	(22)	277
Non-interest expense	**158**	193	147	149	130
Income before taxes	**418**	515	423	402	175
Income taxes	**180**	222	182	173	78
Net income	**238**	293	241	229	97
Average assets	**30,492**	22,658	18,354	17,954	15,955
Average assets, including guarantees and standby letters of credit†	**40,299**	30,045	22,863	22,001	19,407
Average current loans	**18,021**	12,969	11,324	11,245	10,104
Average deposits	**1,611**	1,132	328	106	114
Assets under administration	**4,089**	na	na	na	na
Assets under management	**2,674**	1,417	na	na	na
Full-time equivalent staff (a)	**494**	429	NA	NA	NA
Expense-to-revenue ratio (%)	**28.3**	27.2	26.9	28.2	22.3

*Restated to give effect to the revised 1998 organization structure
(a) As at October 31
na – Not applicable
NA – Not available

† Defined in the Glossary on page 92

ENTERPRISE-WIDE RISK MANAGEMENT

Our objective is to earn competitive returns from our various business activities, at acceptable risk levels. As a financial steward, we manage the risks associated with these business activities and the environment in which we operate. This process is termed "risk management." Risk is evaluated in terms of impact on income and asset values, and reflects our assessment of the potential impact on our business of changes in political, economic and market conditions, and the credit-worthiness of our clients. The four primary risks assessed are credit, market, liquidity, and operational risk. The Risk Spectrum below defines each of these risks.

In the management of these risks we rely on the competence, experience and dedication of our professional staff, sophisticated, quantitatively based analytic tools and ongoing investment in technology. This combination of prudence, analytic skills and technology, together with adherence to our operating procedures, is reflected in the strength and quality of our earnings over time.

STRATEGY:

To identify, price and manage risk in order to maintain an appropriate risk-return relationship. Our aim is to use a comprehensive and integrated risk measurement and reporting process to ensure that risk is managed consistently and effectively on an enterprise-wide basis.

APPROACH:

- Promote a strong and pro-active culture according high value to disciplined and effective risk management;
- Communicate clear and concise risk management standards through policies, directives, operating procedures and training, with adherence to the policies and procedures verified by an internal, objective audit process;
- Employ professional and dedicated personnel with a high degree of risk management expertise and experience;
- Adhere to stringent risk management techniques for the evaluation and acceptance of risk; and
- Utilize leading-edge analytical tools and technologies to properly capture and price risk, monitor positions and determine the potential impact of management initiatives and strategies.

PROCESS OVERVIEW:

- The Risk Review Committee (RRC) of the Board of Directors regularly reviews our risk management policies and practices and management's assessment of the major risk areas. Corporate Policies on risk issues are issued under the authority of the CEO after approval by the RRC.
- Operating policies, strategies and risk limits in accordance with Corporate Policies are designed to address existing and emerging risks. These are reviewed by our Risk Management Group and are then formally presented to a Committee of senior executives for their review, with subsequent approval by the President and Chief Operating Officer. This Committee of senior executives also oversees risk management processes and receives regular reports on risk activities.
- The Risk Management Group assesses our risk exposures, reviews the effectiveness of internal control and transactional processes in liaison with Corporate Audit, and coordinates and communicates policy on all risk management issues.

THE RISK SPECTRUM

CREDIT RISK
Credit risk is the potential for loss due to the failure of a counterparty† or borrower to meet its financial obligations. Credit risk arises from traditional lending activity, from settling payments between financial institutions and from providing products that create replacement risk. Replacement risk† arises when a counterparty's commitments to us are determined by reference to the changing values of contractual commitments, for instance, derivatives and other Treasury products. The same credit process is used for all forms of credit risk with the same clients.

MARKET RISK
Market risk is the potential for loss arising from potential adverse changes in underlying market factors, including interest and foreign exchange rates, equity and commodity prices, spread and basis risk.

LIQUIDITY RISK
Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

OPERATIONAL RISK
Operational risk is the potential for loss (including the adverse impact on our reputation) as a result of a breakdown in communications, information or legal/compliance issues due to systems or procedural failures, human error, disasters or criminal activity.

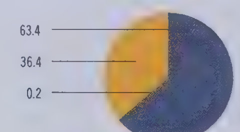
† Defined in the Glossary on page 92

STRATEGY:
To maintain a well-diversified asset portfolio regardless of the economic environment and to earn a return appropriate to the risk profile of the portfolio.

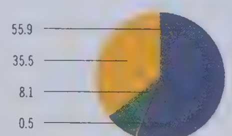
MEASURES:
We use two primary measures to monitor our success in managing the credit risk in our loan portfolio:

- **The provisioning ratio** is the most accurate indicator of underlying asset quality over the long term, and represents the base level of provisions necessary to cover losses in the lending portfolios. This ratio is calculated as the annual provision for credit losses (PCL) as a percentage of average loans and acceptances (collectively referred to as loans).
- **Gross impaired loans as a percentage of equity plus the allowance for credit losses (allowance)** measures the financial condition of our portfolio by comparing the volume of impaired loans to the level of capital and reserves available to absorb loan losses.

MARKET DIVERSIFICATION
(% of loan portfolio)



GEOGRAPHICAL DIVERSIFICATION
(% of loan portfolio)



HOW SPECIFIC RISKS ARE MEASURED AND MANAGED:

This section describes how we manage specific risks, including the means by which we measure them, starting with credit risk.

CREDIT RISK

Approach:

Our focus on a broadly diversified portfolio results in lending relationships with millions of different clients, the majority of which are consumers and small to medium-sized businesses. Credit risk management of such a broad client base requires a combination of a high degree of personal accountability, clear delegation of decision-making authority and disciplined portfolio management. Customer relationship managers, who are skilled lenders, evaluate credit transactions for commercial loans. We monitor performance and price credit transactions commensurate with risk using Risk Adjusted Return on Capital (RAROC†) among other methodologies. RAROC is applied to all large commercial transactions and draws on multiple external market data inputs for measurement purposes, such as stock exchange filings and credit ratings.

Our commitment to diversifying the risks within the loan and investment portfolios is integral to effective credit risk management, particularly in the corporate and institutional portfolios, where concentration of risk can be a more significant issue.

Management stresses the prompt recognition of problem accounts and the transfer of material cases to a group of specialists skilled in managing such accounts. All problem accounts are subject to a formal quarterly review. Our independent internal audit group reviews management processes to ensure that line functions adhere to established credit policies.

These processes enable us to maintain a loan portfolio that is well diversified by size and risk category throughout individual, commercial, corporate, institutional, industrial and geographic markets.

Consistent with the general principles stated above, during 1998 we began implementing a redesign of lending activities as part of a broader initiative to further enhance our risk management processes. The steps taken to date have separated three key elements of the credit process for large corporate lending activity, namely transaction origination, distribution (sales and syndications), and portfolio management activity. The availability and increasing reliability of technological tools in the portfolio management process have enabled us to refocus the work-flows so that more time and attention are given to higher-risk situations. Also, individual lenders can readily approve low-risk situations.

The largest components of our overall loan portfolio are as follows:

Commercial, Corporate and Institutional Loan Portfolio (39.3% of Total Assets in 1998 versus 34.3% in 1997)
Securities purchased under resale agreements (reverse repos†) and loans to financial institutions represented 42.3% of the overall commercial loan portfolio in 1998, increased from 38.4% at October 31, 1997. The remainder of the portfolio was broadly diversified across Canada and the U.S. Midwest, by industry, industry sub-sector and client relationship, with a broad range of borrower type and size. Manufacturing and service industries are by their nature diversified among many industry sub-sectors.

Individual Portfolio (22.6% of Total Assets in 1998 versus 24.1% in 1997)
Mortgages continue to be the predominant lending product in the loans to individuals portfolio, representing 66.4% of total loans to individuals. Credit card assets represent only 0.4% of our total assets as a result of our card securitizations ($2.5 billion to date) in Canada and the sale of our U.S. card business to Partners First. The individual portfolio is inherently diverse, which helps to mitigate loan loss volatility. Loan loss experience on this portfolio is more predictable and tends to follow the economic cycle. Transaction decisions are also subject to automated methodologies, which enable consistency, reliability and efficiency in decision-making.

† Defined in the Glossary on page 92

Continued Strong Performance

The provisioning ratio of 9 basis points (down from 23 basis points in 1997) represents an improvement in asset quality performance. A lower provisioning ratio indicates a lower level of loss in the portfolio. The provision for credit losses in 1998 was $130 million and included a specific provision of $20 million and a $110 million increase to the general allowance. The provision was $145 million lower than 1997 due to a $90 million lower addition to the general allowance and a reduction of approximately $100 million relating to credit card portfolios which were sold or securitized, offset by a higher level of net specific provisions. The provisioning ratio of 9 basis points marks the lowest level in more than two decades, attributable to continuing favourable economic conditions and strong asset quality management.

The total general allowance now stands at $885 million. We maintain a general allowance in recognition of the fact that not all of the impairment in the loan portfolio can be specifically identified on a loan-by-loan basis. The general allowance is based upon statistical analysis of past performance, the level of allowance already in place and management's judgement. The general allowance would normally increase in a strong business/economic cycle and would be drawn down during a weak business/economic cycle when specific allowances would normally increase in relation to our exposures. Our primary regulator, the Office of the Superintendent of Financial Institutions, Canada (OSFI), permitted the amount of the general allowance to qualify as Tier 2 capital, up to a maximum of 0.625% of risk-weighted assets†. OSFI will formally introduce its general allowance assessment criteria in 1999, with application to the general allowance balances for 1999 year ends and the following periods. OSFI will be working with deposit-taking institutions on the transition to its new criteria. The potential effects, if any, of such criteria cannot yet be determined.

There were no material credit losses for individual accounts in 1998 or 1997, with the probability of single large losses reduced as a result of both the diversification of the portfolios and good management discipline. The methodologies employed are aimed at restricting larger credit exposures to higher-quality risks and to short-term situations. 1997 was considered to be the most favourable point on the current credit cycle, and as a result recoveries of previous write-offs on larger problem loans that originated several years ago were higher in 1997 than in the current year. Recoveries in 1997 amounted to $158 million, reflecting the strength of the North American economy, with recoveries in 1998 of $64 million by comparison.

Overall, the performance of the consumer portfolio has remained strong and good asset growth has been achieved. The natural diversification in the consumer credit portfolio means that our losses from that portfolio largely follow the general business cycle.

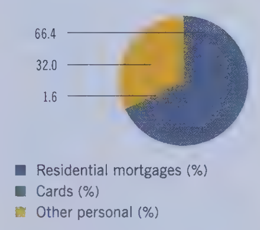
Impaired Loans More Than Covered by Allowance

The ratio of gross impaired loans (GIL) to equity and allowance for credit losses (ACL) is another primary performance measure of asset quality.

As a result of the reduced incidence of new impaired loans and strong recoveries in the early part of 1998, as well as increased equity, the ratio improved to 6.66% at year-end, compared to 7.65% at October 31, 1997.

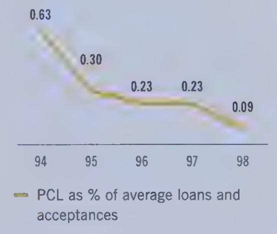
The negative net impaired loans position at October 31, 1998 of $342 million, was little changed from negative $358 million in 1997; that is, the allowance for credit losses continued to exceed the gross amount of impaired loans by the amounts noted. This resulted from significant reductions in gross impaired loans over recent years partially offset by a $37 million increase in 1998, and the prudential build-up of the general allowance in 1998 to $885 million. The most significant factor leading to lower impaired loan totals in recent years was the generally favourable economic environment in our major markets. In addition, our monitoring models for larger corporate loans assisted us in detecting quality deterioration early, providing us with a broader range of options to address emerging problems with these borrowers. Our ongoing investment in enhanced portfolio management and monitoring techniques has contributed to a reduced incidence of impaired loans. We have not been major lenders in Asia, Russia and Eastern Europe, regions that are currently experiencing economic trouble, with our net outstanding exposure in those countries less than $3.2 billion at October 31, 1998

LOANS TO INDIVIDUALS BY PRODUCT



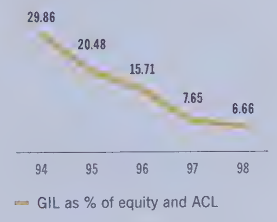
Note: For more information see Table 9 on page 60.

PROVISIONING RATIO



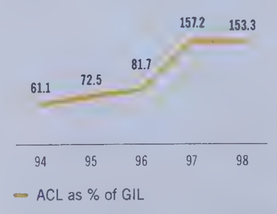
Note: For more information see Table 10 on page 60.

GROSS IMPAIRED LOANS RATIO



Note: For more information see Table 12 on page 62.

ALLOWANCE FOR CREDIT LOSS RATIO



Note: For more information see Tables 10 and 11 on pages 60 and 62.

† Defined in the Glossary on page 92

(refer to table on page 52). We also do not currently have any impaired loans to hedge funds, another market sector that experienced problems in 1998, and after a detailed review of all such accounts we do not consider that our limited outstandings in this sector of the market exhibit any material risk of loss.

Similar comments apply to the position at the end of 1997 when net impaired loans were negative $358 million, resulting from a decrease in gross impaired loans of $610 million, or 43.7%, and the build-up of the general allowance to $775 million. This improvement was also due mainly to the favourable economic environment in our major markets and our improved monitoring methods to detect deterioration in the quality of corporate loans.

OUTLOOK
The provision for credit losses as a percentage of average loans and acceptances was unusually low in 1998, benefiting from the extended growth phase of the economic cycle and a high level of recoveries and reversals as well as strong asset quality management. In 1999 we expect this ratio to increase, with slower economic growth and lower levels of recoveries and reversals.

MARKET RISK

STRATEGY:
To identify, measure, monitor and control all market risk-taking activities to protect both our earnings and the value of our assets against potential adverse changes in market rates.

MEASURES:
Earnings at Risk† and **Economic Value-at-Risk**† are the primary measures for analyzing market risk. These measures calculate the impact on net income over the next 12 months of a one-time increase in market rates or prices and the impact on the value of our assets and liabilities of adverse changes in market rates or prices over the period that would be required to eliminate open positions.

Approach:

Market risk is controlled by actively managing the asset and liability mix, either directly through the balance sheet or with off-balance sheet† derivative products. We measure, monitor and control market risk using various techniques, including gap reporting, stress testing, simulation and sensitivity analysis.

VALUE AT RISK†
A key focus this year was the continuing implementation of Value at Risk (VaR) methodologies for our trading portfolios. VaR measures the adverse impact on our portfolios of potential changes in market rates and prices while incorporating correlations across all markets. VaR is also the basis for calculating market risk capital in accordance with Bank for International Settlements (BIS) and OSFI requirements. The objective of this project is to implement an infrastructure to satisfy our needs for better measurement and evaluation of risk, including capital at risk, and to better satisfy regulatory requirements. A three-pronged approach has been adopted to meet the regulatory requirements for Capital Adequacy Reporting (CAR) mandated by OSFI, as follows:

- The Standard Model, CAR, being a standardized approach for all trading activities, is complete;
- We received OSFI approval to apply the model of the Foreign Exchange VaR to all affected units effective October 31, 1998; and
- Implementation of Integrated VaR for all traded foreign exchange and interest rate products, representing our significant sources of trading risk, is continuing. When this is completed in fiscal 1999 it will replace the Standard Model for those trading activities. Commodity and equity risks, which do not represent as significant a level of risk, will be dealt with following the completion of Integrated VaR.

BALANCE SHEET COMPONENTS:
Structural: Canadian and U.S. retail and commercial and Canadian corporate instruments.

Money market: Bank placements and acceptances, and international loans and investments.

Trading: Instruments designated as trading and marked-to-market.

Interest rate risk is our primary market risk and is discussed in more detail below. The amount of foreign exchange risk arising from both customer-initiated transactions and trading activities undertaken on our behalf is not a material part of our overall market risk. Structural (non-trading) foreign exchange positions in the balance sheet are for the most part match funded (with assets and liabilities funded in the same currency), with the exception of our investment in Bancomer. We generally offset commodity and equity exposures to ensure that our exposure to adverse price movements is minimal.

Interest Rate Risk Sensitivity

We use two primary risk models to determine the sensitivity of our portfolios to adverse interest rate changes. A 100 Basis Point Increase model calculates the impact on earnings and the value of our assets and liabilities of a one-time 100 basis point increase across all portfolios. This model is used by most financial institutions and hence facilitates comparability with our peers. The Rising Interest Rate Risk model is used internally as a more sophisticated measure of our risk. This model calculates the impact on earnings over the next 12 months and on the value of our assets and liabilities of a one-time increase in rates reflecting the maximum expected rate change in each portfolio during the estimated period required to close our positions in that portfolio. Management considers this a more accurate

† Defined in the Glossary on page 92

reflection of our risk, since money market portfolios represent a significant component of our sensitivity, and as these are very short-term in nature we would normally be able to close these positions before a full 100 basis point increase occurred.

INTEREST RATE RISK SENSITIVITY – RISING INTEREST RATES

	Structural and Money Market Portfolios	
As at October 31, 1998 (after-tax Canadian equivalent $ millions)	100 Basis Point Increase	Rising Interest Rate Risk (b)
Earnings at risk† over the next 12 months (a)	(38.8)	(32.2)
Economic value-at-risk† (a)	(333.0)	(451.3)

(a) Risk measures include the impact of embedded options but exclude actions that we could take to reduce risk or the actions that customers might take in response to changing rates. Other assumptions are consistent with those disclosed for the gap position in Table 7 on page 58 of the Annual Report.

(b) Risk measures are based upon statistical analysis of historical data on an individual portfolio basis using a 97.5% confidence level.

Market Risk Sensitivity

Our Market Risk Sensitivity model uses the same core principles as the Rising Interest Rate Risk model, but in addition to rising interest rate risk, it incorporates the impact of all adverse market rate/price changes within the different time periods required to close each of our portfolios. The model also views each portfolio separately and hence can be more conservative than if the effects of correlation (namely, interdependence) between portfolios were included.

MARKET RISK SENSITIVITY – ADVERSE CHANGES IN MARKET RATES/PRICES (a)

	1998		1997	
As at October 31 (after-tax Canadian equivalent $ millions)	**Cdn$**	**US$**	Cdn$	US$
Earnings at risk over the next 12 months (b)	**(43.1)**	**(33.2)**	(59.6)	(34.8)
Economic value-at-risk (b)	**(390.3)**	**(104.7)**	(250.9)	(83.2)

(a) Earnings at risk and economic value at risk include Cdn$(22.7) and US$(16.7) in 1998, and Cdn$(20.5) and US$(17.9) in 1997, related to trading portfolios.

(b) Assumptions for the model are consistent with (a) and (b) under Interest Rate Risk Sensitivity, with the additional inclusion of minimum rates on deposits.

In the fourth quarter of 1998 we incurred trading losses of $90 million after-tax. The trading losses were a result of abnormal market conditions which drove a widening of credit spreads and reduced liquidity in the corporate debt markets. We continue to manage our remaining positions very closely, and have reduced our exposure where appropriate. These trading losses did not exceed our overall aggregate risk parameters. The increase in economic value-at-risk from 1997 to 1998 reflects the impact of recent market conditions on the historical data included in our model, as well as continued asset growth.

LIQUIDITY RISK

Approach:

Our approach to liquidity management is to measure and forecast liquidity requirements based on expected economic, political and Bank-specific events. This enables us to determine if we have sufficient funds available to meet all short-term liquidity demands, even in times of crisis. Funds encompass both liquid assets on hand and the capability to raise additional funds to meet liquidity requirements. Liquidity risk is measured by estimating our potential liquidity and funding requirements under stressed environments. We continuously monitor liquidity risk and actively manage our balance sheet to minimize this risk. Our liquidity management approach has two main goals: diversification to prevent funding problems and maintenance of an appropriate level of liquid assets. Our methodology for meeting these goals is outlined below.

Our goal is to maintain sufficient funds and funding capacity to meet our net cash outflow commitments, both on- and off-balance sheet, so that in the event of a liquidity crisis such commitments will be covered without having to raise funds at unreasonable prices or sell assets on a forced basis. Management establishes minimum liquid asset requirements, together with limits and guidelines for liability diversification and standby funding commitments. Sensitivity analyses are run to determine the impact of deposit withdrawals and commitment

DERIVATIVES†

Derivative contracts can either be exchange traded (such as futures and some types of options) or over-the-counter† transactions including interest rate and cross-currency swaps, forward rate agreements (FRAs), caps and floors, as well as other types of options†. We use financial derivatives to manage market risk for both trading and hedging purposes. We also offer derivative products to customers for their own risk management and investment purposes. The two primary risks arising from the use of derivative products are credit risk/replacement risk, and market risk. These risks are described, managed and measured as stated earlier.

For regulatory purposes, we also calculate the credit risk equivalent for our interest rate and foreign exchange derivative contracts on a BIS basis. This includes the cost of replacing, at current market rates, all contracts that have a positive fair value, plus the potential for future changes based on a formula using parameters prescribed by OSFI. Our internal parameters are more conservative than those prescribed by OSFI. The credit risk equivalent as at October 31, 1998 was $13.1 billion as compared to $8.0 billion in 1997.

Additional disclosure with regard to derivatives is found in note 21 to the consolidated financial statements.

STRATEGY:

We manage our balance sheet to ensure that we have or can obtain sufficient liquid resources in both a timely manner and at a reasonable price to meet customer requirements and our own operating needs.

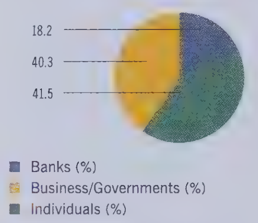
MEASURE:

The **liquidity ratio** is our primary measure for liquidity coverage and represents the ratio of cash, securities and deposits with other banks (liquid assets) to total assets.

† Defined in the Glossary on page 92

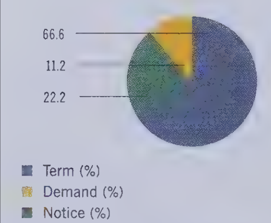
ENTERPRISE-WIDE RISK MANAGEMENT

DEPOSITS BY CUSTOMER

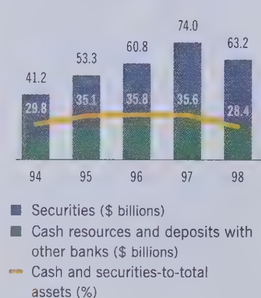


Note: For more information see Table 18 on page 65.

DEPOSITS BY TYPE



LIQUID ASSETS-TO-TOTAL ASSETS



Note: For more information see Table 17 on page 65.

drawdowns, as well as the impact of changing business environments on liquidity requirements. The analyses are evaluated to enable us to react to changes in an appropriate and timely manner.

In the ordinary course of business, to support our participation in clearing and payment systems, both domestically and abroad, a portion of liquid assets is pledged as collateral. At October 31, 1998 $41.4 billion of assets and securities had been pledged, primarily for obligations related to assets sold under repurchase agreements. This amount is up $4.8 billion from last year, and is included in our liquidity analyses.

Three primary sources of funds are used to provide liquidity: retail deposits, wholesale deposits and the capital markets.

Our large base of deposits by individuals provides a long-term, stable source of funding. These deposits, along with our strong capital base, reduce our reliance on other, more volatile sources of funds.

Our wholesale source of funds continues to be broadly diversified by customer, type, market, maturity term and currency. Wholesale international deposits are generally short-term in nature, supporting our wholesale international assets, which are largely similar in nature.

Our wholesale funding activities are performed by professional teams situated in several key financial markets worldwide, and are subject to stringent liability diversification policies.

We continue to access the capital markets for medium to long-term funds as required and when market opportunities permit. This complements daily cash management activities, providing diverse funding sources and enables us to take advantage of cost-efficient funding opportunities. The activity in the capital markets usually involves funds that are two to ten years in term.

Asset securitization provides an alternate source of funds through the sale of assets. During 1998 we securitized $9.7 billion of assets. Further information about securitization can be found in the Capital Management section on page 50. Our asset securitization capabilities contribute to our liquidity and funding risk management program.

Our liquidity ratio at October 31, 1998 was 28.4%, down from 35.6% in 1997. The decrease was the result of two factors: continued growth in our Canadian dollar loans such as residential mortgages, and the reduction in our liquid assets of $10.8 billion, or 14.6%, particularly in U.S. money market placements as part of our ongoing portfolio management initiatives.

Total liquid assets increased $13.2 billion, or 21.8% in 1997. The increase in the level of liquid assets in 1997 was mainly due to increased interbank placements of $8.6 billion and a continued increase in securities of $5.2 billion. Nonetheless, the liquidity ratio decreased 0.2% in 1997 as a result of strong growth in most loan categories throughout 1997.

OUTLOOK
We maintained a strong level of liquidity in 1998, and a strong retail deposit base. Although the economy is expected to slow in 1999, management will continue to manage liquidity by maintaining sufficient funds and funding capacity as well as a strong diverse deposit base.

OPERATIONAL RISK

The financial measure of operational risk is actual losses incurred. No material losses occurred in 1998 or in 1997; however, there is no assurance that we will not suffer such losses in the future due to the nature of the risk. Operational risk is managed through the establishment of effective infrastructure and controls. Key elements of the infrastructure are qualified, well-trained personnel, clear authorization levels and reliable technology. Controls, established by documented policies and procedures, include the regular examination of internal controls by an independent internal audit function, segregation of duties, and financial management and reporting. In addition we maintain insurance coverage, contingency plans for systems failure or catastrophic events, including back-up systems with off-site data storage, and pre-testing and parallel implementation of new systems.

An indirect subsidiary of the Bank has been named as a defendant in legal actions, which are described in note 20 to the consolidated financial statements.

CAPITAL MANAGEMENT

CAPITAL MANAGED IN LINE WITH STRONG BALANCE SHEET GROWTH

Capital is defined as investor resources, typically shareholders' equity plus subordinated debt, available to provide support for our risk-taking activities. Capital is a strategic resource, which requires a disciplined management program to ensure efficient and effective deployment.

A consistently strong capital position enables us to:

- Ensure the quantity and quality of capital is adequate to cover the economic risks arising from our business operations;
- Meet or exceed the expectations of the market;
- Optimize our capital usage; and
- Exceed minimum regulatory requirements at all times.

Approach:

In managing our capital, we need to balance the needs and requirements of stakeholders, including shareholders, regulators and rating agencies. Accordingly, capital management is an integral part of our risk management strategy.

Management of our capital takes into account economic, regulatory and legal entity requirements. Capital is managed at two levels – the consolidated Bank level, and the line of business level.

At the consolidated Bank level, total capital determines the amount of risk that we can assume and we work to ensure that regulatory and legal capital requirements are met. For internal management purposes, our focus is equity capital. At the line of business level, equity is managed on an economic basis. Equity is allocated to support the economic risks associated with a particular transaction, activity or line of business. Its primary use is evaluating investment decisions and measuring performance through RAROC.

Improved Capital Ratios

Our Tier 1 Ratio increased to 7.26% in 1998 from 6.80% in 1997, while risk-weighted assets increased 12.4%. This was made possible by active balance sheet management, with various initiatives undertaken in 1998 to optimize our balance sheet, including the securitization of corporate loans, mortgages and credit cards. Approximately $9.7 billion of assets were securitized in 1998 (see page 50 for a description of the securitizations and their impact), which helped to moderate risk-weighted asset growth to a level more supportable by internally generated capital. Another 1998 initiative was the issuance of preferred shares, which resulted in an increase of $650 million in Tier 1 capital. The Tier 1 Ratio improved by 79 basis points as a result of these initiatives.

We also use secondary measures for monitoring regulatory capital requirements, namely the Total Capital Ratio and the assets-to-capital multiple, both defined by OSFI. OSFI requires banks to meet the minimum capital requirements of 4% and 8% in terms of Tier 1 and Total Capital Ratios respectively, and also requires them to not exceed an assets-to-capital multiple of 20. Our Total Capital Ratio, the ratio of total capital to risk-weighted assets, was 10.38% as at October 31, 1998. This was up from 9.66% at the end of 1997, due primarily to the strengthening of the Bank's Tier 1 Ratio mentioned above and the issuance of subordinated debt. The assets-to-capital multiple is the multiple of adjusted assets (including guarantees and letters of credit) to total capital. Our assets-to-capital multiple as at October 31, 1998 was 16.0, improved from 18.0 at the end of last year. The reasons for the improved multiple are the same as noted above for the improvement in the Total Capital Ratio.

In 1997 our Tier 1 Ratio increased to 6.80% from 6.71% in 1996. This improvement was driven by an increase in Tier 1 capital of 18.7%, offset by the impact of a 17.0% increase in risk-weighted assets. Tier 1 capital increased through retained earnings growth and the issuance of $400 million of preferred shares. Risk-weighted asset growth was moderated by various balance sheet risk management initiatives, including our first asset securitization.

OUTLOOK

Capital ratios in 1998 were managed in line with strong balance sheet growth. Management expects to continue to maintain the Tier 1 and Total Capital Ratios above 7% and 10% respectively, in line with OSFI expectations.

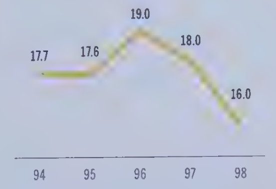
STRATEGY:
To maintain a consistently strong capital position, while earning appropriate returns on capital to support long-term shareholder value.

MEASURE:
The **Tier 1 Ratio** is our primary measure of capital adequacy. The Office of the Superintendent of Financial Institutions, Canada (OSFI) defines this measure as Tier 1 capital as a percentage of risk-weighted assets.

REGULATORY CAPITAL RATIOS†

Note: For more information see table on page 50.

ASSETS-TO-CAPITAL MULTIPLE



Note: For more information see table on page 50.

† Defined in the Glossary on page 92

CAPITAL MANAGEMENT

SECURITIZATION CONTINUES IN 1998

What is securitization?
Securitizing assets involves selling financial assets to trusts or special-purpose vehicles that are independent from us. We undertook our first securitization of credit card receivables in 1997, and continued in 1998 by securitizing mortgages, corporate loans and additional credit card receivables.

Why do we securitize?
Securitization serves as an effective balance sheet management tool by reducing or eliminating the need to hold capital against higher risk-weighted assets, enabling capital to be redeployed to alternative revenue-generating purposes. It also serves as an effective liquidity management tool by diversifying funding sources. The nature of securitization changes our role from that of lender to loan servicer, thereby removing the loans from our balance sheet. Loan securitization also affects the manner in which our revenue and provision for credit losses are reported in the income statement. Amounts for the securitized loans that would otherwise have been reported as net interest revenue, as fee and commission revenue, and as credit losses on loans are instead reported as securitization revenues, included in other income. Revenue from securitized portfolios is received in the form of cash flows paid out from the trust. Credit losses are a component of the cash flows on the securitized portfolio, so our revenues on the securitized credit card portfolio may be lower depending on the performance of the securitized receivables. However, our exposure to credit losses on the securitized credit card receivables is contractually limited to the cash flows on that portfolio.

What have we securitized?
In 1998 we securitized $5.0 billion of uninsured mortgage loans, $145 million of insured mortgage loans, $4.1 billion (US$2.8 billion) of commercial loans and $0.5 billion of credit card receivables (in addition to the $2.0 billion securitized in 1997). The impact of the securitizations on 1998 and 1997 results is shown below:

How does this affect us?	1998	1997
Reduced net interest revenue	**(128)**	(17)
Increased other income	**68**	16
Reduced provision for credit losses	**(50)**	–
Impact on net income before tax	**(10)**	(1)
Improved Tier 1 Ratio (basis points)	**35**	10

For additional information refer to note 7 to the consolidated financial statements.

CAPITAL ADEQUACY ($ millions except as noted)

As at October 31	1998	1997	1996	1995	1994
Canadian Basis					
Tier 1					
Common shareholders' equity	**8,650**	7,629	6,729	6,174	5,678
Non-cumulative preferred shares	**1,958**	1,274	857	858	860
Non-controlling interest in subsidiaries	**40**	80	101	121	144
Goodwill	**(494)**	(521)	(557)	(411)	(450)
Tier 1 capital	**10,154**	8,462	7,130	6,742	6,232
Tier 2					
Cumulative preferred shares	**0**	0	0	0	0
Subordinated debt	**4,670**	3,582	3,179	2,268	1,999
General allowance for credit losses (a)	**873**	775	0	0	0
Tier 2 capital	**5,543**	4,357	3,179	2,268	1,999
Less: First loss protection	**323**	113	na	na	na
Investment in non-consolidated subsidiaries/ substantial investments	**858**	697	625	0	0
Total capital	**14,516**	12,009	9,684	9,010	8,231
Risk-weighted assets	**139,782**	124,348	106,267	96,075	86,589
Risk-weighted capital ratios (%)					
Tier 1	**7.26**	6.80	6.71	7.02	7.20
Total*	**10.38**	9.66	9.11	9.38	9.51
U.S. basis Tier 1	**6.95**	6.35	6.26	6.82	6.91
U.S. basis total*	**10.86**	9.92	9.81	9.97	10.07
Assets-to-capital multiple	**16.0**	18.0	19.0	17.6	17.7
Equity to assets (%)	**5.0**	4.4	4.6	4.7	4.8

*The October 31, 1996 Total Capital Ratio and Tier 2 capital reflect the inclusion of the $300 million in subordinated debentures issued November 1, 1996. Excluding this issue, the Total Capital Ratio would be 8.83%, and 9.53% on a U.S. basis.

(a) General allowance included with the approval of OSFI beginning in 1997. OSFI approved the inclusion of the lesser of the balance of our general allowance for credit losses or 0.625% of risk-weighted assets outstanding.

na – Not applicable

ECONOMIC OUTLOOK AND GLOBAL DEVELOPMENTS

On previous pages of this Management Analysis of Operations we discussed our financial performance and condition for 1998 and 1997. We presented our 1999 outlook in respect of key financial performance and condition measures throughout these pages (specifically Revenue Growth on page 28; Productivity on page 30; Asset Quality on page 46; Liquidity Risk Management on page 48 and Capital Management on page 49). In this section we discuss major external factors that could impact our financial performance and condition going forward. These external factors include: the North American economy; the global economy; the impending European Monetary Union; and the year 2000 issue.

NORTH AMERICAN ECONOMIC DEVELOPMENTS IN 1998

Following a solid performance in 1997, the U.S. economy slowed modestly in 1998 amid weakening exports to East Asia and turbulence in global financial markets. However, the Asian crisis also kept U.S. inflation and interest rates low, which in turn supported consumer and business spending. As a result, growth in the U.S. economy remained sufficiently strong to hold the unemployment rate near 4.5% – its lowest level in three decades.

However, given its greater reliance on natural resources, the Canadian economy was more adversely affected by the Asian crisis than the U.S. economy. Increases in short-term interest rates between June 1997 and August 1998 dampened consumer and business spending in Canada. As a result, the Canadian unemployment rate, though down slightly from late 1997, remained above 8%. Low commodity prices also pushed the Canadian dollar to a record low of 63.1 U.S. cents in late August. However, the currency has stabilized at a slightly higher level recently amid firmer natural resource prices.

We also saw Mexico's economy slow sharply in 1998 owing to the weaker external environment and tighter fiscal policy. Interest rates soared as the Bank of Mexico tried to stem an outflow of capital. The peso fell against the U.S. dollar amid weak oil prices and concern about a recession in Latin America.

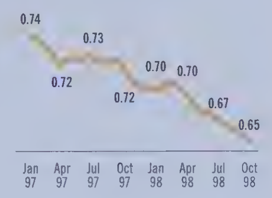
ECONOMIC EXPECTATIONS FOR 1999

We expect the U.S. economy to slow further in 1999, though only to its long-run average growth rate of 2.25%. Domestic demand continues to be supported by solid growth in employment and income, and we consider that the risk of recession appears small. In fact, we believe that recent and prospective rate cuts by the Federal Reserve (Fed) should encourage a pickup in activity by late 1999. This, together with an expected jump in inflation in response to worker shortages and rising wages, will likely spur the Fed to raise interest rates in the second half of 1999, which in turn could lead to an increase in long-term rates.

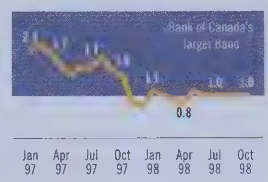
It is our belief that the slowdown in U.S. demand and the global economy will temper Canada's exports and slow the economy further in 1999, resulting in a modest upturn in the jobless rate. Business investment will moderate amid soft earnings growth. Although we anticipate that the economy will slow, it should avoid recession as long as the U.S. economy remains healthy. Inflation will likely remain within the lower half of the Bank of Canada's 1% to 3% target range. We expect the Canadian dollar will remain within the US$0.64 – 0.68 range in the face of soft commodity prices, Fed tightening in late 1999 and political uncertainty relating to the prospect of a referendum on Quebec independence. However, improved fiscal balances and low inflation should provide some support to the currency. Long-term interest rates are expected to climb alongside their American counterparts in 1999. However, we expect the Bank of Canada to hold short-term rates steady in the context of modest growth and low inflation.

We expect Mexican interest rates to remain lofty in 1999 amid high inflation and further weakness in the peso. This, together with soft demand in Latin America and waning business confidence, should slow the economy further in 1999.

U.S./CANADIAN DOLLAR EXCHANGE RATE ($)



CANADIAN INFLATION RATE (%)



U.S. UNEMPLOYMENT RATE AND CONSUMER PRICE INDEX (CPI) (%)

ANNUAL GROWTH GROSS DOMESTIC PRODUCT (%)
(estimates for the year ending Dec. 31)

	1998	1999
Canada	**2.9**	2.1
United States	**3.5**	2.1
Mexico	**4.4**	3.1

ANNUAL AVERAGE EXCHANGE RATES
(estimates for the year ending Dec. 31)

	1998	1999
Cdn$/US$	**1.490**	1.500
Peso/US$	**9.18**	10.71

ECONOMIC OUTLOOK AND GLOBAL DEVELOPMENTS

Recent monetary easing by the Fed, along with reform measures undertaken by the Japanese and Brazilian governments, have bolstered investor confidence and steadied global capital markets. We believe that calm markets should persist through 1999 as the economies of East Asia and Latin America begin the slow process of recovery. Nonetheless, the risk of a renewed period of market turbulence is not insignificant. A wild card is whether recent fiscal stimulus will achieve a self-sustained recovery in Japan.

Our approach to these expectations is to continue with our diversification strategy, which helps provide earnings stability.

GLOBAL ECONOMIES IN CRISIS

The Asian crisis that started in 1997 continued in fiscal 1998, resulting in severe problems in the Asian financial sector. During the current year problems were also experienced in the Russian economy and certain Eastern European countries. The impact of globalization, and the resulting interconnection between world economies and markets, were clearly evident. Turmoil on the other side of the globe can, and did affect North American markets. We prepared ourselves for this global marketplace, and as a result our direct exposure to the troubled economies is not significant. Details of our direct credit exposures in the affected regions are set out in the table below.

Our strategy for dealing with the challenge of fragile emerging markets is to restrict our exposures to:

- short-term treasury activities with leading banks;
- trade finance primarily in support of our North American exporting clients; and
- selective project and corporate financings predicated on hard-currency cash flow generating capacity.

No significant losses were experienced on these portfolios in 1998.

Some of the problems experienced in Asia and Eastern Europe were also felt in Latin America. However, these developments did not result in any new impaired loans in our portfolios. Although Mexico falls in this general geographic region, the Mexican economy is differentiated by, among other things, its NAFTA standing, and has more recently begun to show signs of recovery, albeit slow. We continue to view the Mexican economy as fundamentally sound. Our strategic investment in Mexico included equity and debenture holdings of $671 million in Bancomer. Our net loans and acceptances outstanding at October 31, 1998 for Mexican clients totalled $790 million and our other significant exposures included guarantees and letters of credit totaling $185 million and trade financing of $112 million. Apart from Mexico, our largest exposure in the geographic region is Brazil, which suffered a setback in its economic plans but received international support to foster its ongoing progress. Our net exposure in Brazil consisted primarily of loans and acceptances of $202 million, trade financing of $119 million, $89 million in guarantees and letters of credit and equity holdings of $113 million (Brazilian Conversion Fund). Our total net exposure to clients in other Latin American countries was $525 million at October 31, 1998.

For additional comments on our credit risk management process, refer to the Enterprise-wide Risk Management section on page 44.

DIRECT EXPOSURE TO ASIAN, RUSSIAN AND EASTERN EUROPEAN ECONOMIES ($ millions)

As at October 31, 1998	Treasury Products[1]	Money Market Placements	Trade Finance	Loans and Acceptances	Off-Balance Sheet Exposures	Gross Total Exposure	Allowance	Net Exposure
Asia								
South Korea[2]	–	–	5	683	6	694	–	694
Indonesia	–	–	39	135	–	174	16	158
Malaysia	–	39	–	–	4	43	–	43
Thailand	–	–	5	14	1	20	8	12
Philippines	–	–	–	7	–	7	–	7
Sub-total	–	39	49	839	11	938	24	914
Other Asia[3]	27	494	43	113	100	777	–	777
Total, excluding Japan	27	533	92	952	111	1,715	24	1,691
Japan	155	1,209	4	33	33	1,434	–	1,434
Total Asia	182	1,742	96	985	144	3,149	24	3,125
Russia and Eastern Europe[4]	1	1	–	34	4	40	8	32
Total	183	1,743	96	1,019	148[5]	3,189	32[6]	3,157

1. The treasury product exposures represent the sum of counterparties in the respective countries with net positive mark-to-market positions; i.e. the aggregate of all counterparties who would owe money (net) to ourselves and excluding all counterparties to whom we would owe money upon settlement.
2. We participated with other international banks in the International Monetary Fund/Group of Seven† sponsored initiatives in South Korea. As a result, the Republic of Korea has guaranteed part of our current exposure to Korean banks, with $572 million (US$398 million) of debt exchanged under the plan.
3. Other Asia includes: Taiwan, China, Singapore, India, Pakistan and Hong Kong.
4. Eastern Europe includes: Czech Republic, Slovak Republic, Estonia, Latvia, Romania, Lithuania, Hungary, Poland, Slovenia and Croatia.
5. Off-balance sheet exposures includes primarily guarantees and letters of credit.
6. This allowance does not include any portion of the general allowance for credit losses of $885 million as at October 31, 1998.

† Defined in the Glossary on page 92

EUROPEAN ECONOMIC AND MONETARY UNION

European Economic and Monetary Union (EMU), which is to occur on January 1, 1999, will affect all financial institutions operating within the European market. We do not expect this issue to have a material impact on our operations.

Our approach to this issue was the establishment of a program management office, which is monitoring and coordinating the implementation process. We identified business processes and clients that may be affected and developed a plan to address this issue. As a result we expect to be able to continue serving those processes and customers after EMU occurs. Systems development costs for this purpose were not material in the current fiscal year.

YEAR 2000

The year 2000 issue is pervasive as almost all date-sensitive systems will be affected to some degree by the rollover of the two-digit year from 99 to 00. Potential risks of not addressing this issue include business interruption, financial loss, reputation loss, and/or legal liability.

Our approach to the year 2000 issue is as follows:

We have undertaken an enterprise-wide initiative to address the year 2000 issue and have developed a comprehensive plan to prepare, as appropriate, our date-sensitive systems to recognize the date change on January 1, 2000. An assessment of the readiness of third parties with whom we interface, such as vendors, counterparties, customers, payment systems and others, is ongoing, to mitigate the potential risks that the year 2000 issue poses to us. Our objective is to ensure that all aspects of the issue that may affect us are fully resolved in time. However, it is not possible to be sure that all aspects of the year 2000 issue that may affect us, including those related to the efforts of customers, suppliers or other third parties with whom we conduct business, will not have a material impact on our operations. We have consistently maintained contingency plans for vital systems and business processes to protect our assets against unplanned events that would prevent normal operations. Additional plans are being developed to mitigate the effect of potential impacts and to ensure the continuity of operation throughout the year 2000 and beyond. The use of the existing contingency planning infrastructure will assist in providing optimum coverage and re-usability of existing arrangements and responsibility assignments.

Our operations group, Emfisys, acting in support of all of our lines of business, has overall responsibility for converting systems to accommodate the calendar change. Each of our lines of business is responsible for remediation of the assets used to conduct its operations and provide service or products to a client, while attempting to ensure that both the technical and the business risks imposed by the year 2000 issue are addressed. We have established a governance structure to deal with this issue, which includes a Project Management Office and regular monitoring of progress by the Bank's Year 2000 Steering Committees and the Board of Directors.

The process for year 2000 compliance involves four major steps: inventory, impact assessment and plan, implementation, integration testing. The implementation step includes verification, conversion and replacement or retirement of the asset. If an asset is not retired, it is tested and verified, and only once it is verified does it progress to the integration testing step. Integration testing is to confirm that the business functions work accurately and without disruption under year-2000 specific dates, with all applications functioning correctly with interfaces and infrastructure. We plan to substantially complete the implementation of our critical systems by the end of December 1998. The implementation of non-critical business assets is planned to be completed by June 30, 1999. We plan to complete integration testing of all critical systems by June 30, 1999. We expect that the principal costs of remediation and testing of assets will be accommodated by existing resources, primarily through reprioritization of initiatives. As a result, we do not anticipate a significant reduction in technology-related spending to occur after the year 2000 issue is satisfactorily remedied as resources are redeployed to other projects.

In total, we expect the cost of solving the year 2000 issue to be approximately $257 million, with an additional $115 million estimated for capital costs. These numbers are described in more detail below:

Estimated spending for Year 2000 system changes over seven years (1994 to 2000). This figure represents our mainframe and centrally supported client server applications.	$157 million
Estimated business unit costs, including end-user developed applications, and embedded systems (elevators, security access systems, etc.)	$100 million
Estimated capital costs for central information technology and business units. $95 million of this total relates to personal computer replacements, software/hardware replacements and special test environments that are being installed as part of the Year 2000 project, but would have needed to be replaced in any event.	$115 million

The total cost of our Year 2000 program in 1998 was $148 million (pre-1998 – $67 million) of which $55 million (pre-1998 – $18 million) was capitalized. These amounts include our share of year 2000 costs of joint ventures.

The year 2000 issue is one of the best-known examples of operational risk. Further discussion on how we manage operational risk can be found in the Enterprise-wide Risk Management section on page 48.

SUPPLEMENTAL INFORMATION

TABLE 1 SHAREHOLDER VALUE

For the year ended October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Market Price per Common Share ($) (a)										
High	**87.000**	61.600	41.650	31.000	30.750	27.375	24.125	19.188	17.188	17.625
Low	**51.750**	39.050	29.375	24.125	22.000	21.313	18.563	13.250	12.250	13.313
Close	**63.100**	60.850	40.550	29.750	25.125	26.875	23.563	18.688	13.500	17.000
Common Dividends										
Dividends declared ($) (a)	**1.76**	1.64	1.48	1.32	1.20	1.12	1.06	1.06	1.06	1.06
Dividends paid ($) (a)	**1.76**	1.60	1.41	1.29	1.18	1.11	1.06	1.06	1.06	1.05
Dividend payout ratio (%)	**37.4**	35.0	35.1	38.2	40.3	43.3	44.7	46.0	50.7	nm
Dividend yield (%)	**2.9**	3.9	4.7	5.1	4.4	4.7	5.7	7.9	6.2	7.3
Return on Investment (ROI)										
ROI (%)	**6.4**	55.0	42.4	24.1	(2.3)	19.4	32.4	47.4	(14.4)	27.9
Five-year ROI (%)	**23.3**	26.1	22.2	23.1	14.3	20.6	19.8	9.1	4.4	15.1
Common Share Information (b)										
Number of common shares outstanding (in thousands) (a)										
As at	**264,433**	261,436	259,937	263,685	265,457	249,094	244,819	238,770	229,989	221,520
Average – basic	**262,511**	260,410	261,233	265,632	251,307	247,727	242,079	235,085	226,022	218,023
– fully diluted	**269,048**	268,700	268,362	273,919	256,496	252,634	245,131	235,085	226,022	218,023
Number of shareholder accounts	**51,387**	53,651	55,571	57,187	58,879	62,342	65,723	72,887	78,789	82,855
Total book value per common share ($) (a)	**32.71**	29.18	25.89	23.41	21.39	19.40	17.69	16.05	15.00	13.98
Total market value of common shares ($ billions)	**16.7**	15.9	10.5	7.8	6.7	6.7	5.8	4.5	3.1	3.8
Price-to-earnings ratio (times)	**13.4**	13.0	9.6	8.6	8.3	10.4	9.9	8.1	6.4	nm
Market-to-book value (times)	**1.93**	2.09	1.57	1.27	1.17	1.39	1.33	1.16	0.90	1.22

TABLE 2 EARNINGS GROWTH ($ millions except as noted)

For the year ended October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Income Statement										
Net interest income (TEB) (c)	**4,152**	4,186	3,711	3,564	3,325	3,207	3,038	2,734	2,575	2,568
Other income	**3,118**	2,981	2,516	2,102	1,871	1,654	1,404	1,261	1,078	1,018
Total revenues (TEB) (c)	**7,270**	7,167	6,227	5,666	5,196	4,861	4,442	3,995	3,653	3,586
Provision for credit losses	**130**	275	225	275	510	675	550	337	169	1,181
Non-interest expense	**4,833**	4,613	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330
Income before provision for income taxes and non-controlling interest in subsidiary	**2,307**	2,279	2,053	1,745	1,463	1,270	1,127	1,053	1,031	75
Provision for income taxes (TEB) (c)	**932**	949	865	746	627	555	483	452	506	109
Non-controlling interest in subsidiary	**25**	25	20	13	11	6	4	6	3	5
Net income/(loss)	**1,350**	1,305	1,168	986	825	709	640	595	522	(39)
Year-over-year growth (%)	**3.5**	11.7	18.4	19.5	16.4	10.9	7.5	13.9	nm	(107.7)
Earnings per Share (EPS) ($) (a)										
Basic	**4.72**	4.69	4.21	3.45	3.01	2.59	2.38	2.31	2.10	(0.39)
Cash EPS (d)	**4.98**	4.97	4.44	3.67	3.15	2.73	NA	NA	NA	NA
Fully diluted	**4.66**	4.62	4.13	3.38	2.97	2.55	2.36	2.31	2.10	nm
Year-over-year growth (%)	**0.9**	11.9	22.2	13.8	16.5	8.1	2.2	10.0	nm	nm

TABLE 3 PROFITABILITY ($ millions except as noted)

For the year ended October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Net income/(loss)	**1,350**	1,305	1,168	986	825	709	640	595	522	(39)
Preferred dividends	**112**	83	69	69	69	68	64	51	48	47
Net income available to common shareholders	**1,238**	1,222	1,099	917	756	641	576	544	474	(86)
Average common shareholders' equity	**8,128**	7,165	6,457	5,937	5,088	4,564	4,072	3,623	3,259	3,434
Return on common shareholders' equity (ROE) (%)	**15.2**	17.1	17.0	15.4	14.9	14.1	14.1	15.0	14.6	(2.5)
Economic performance threshold (%)	**12.0**	12.0	12.0	12.0	13.0	12.5	13.2	14.8	15.6	14.9
Return on average total equity (%)	**13.8**	15.8	16.0	14.5	13.9	13.1	13.2	14.2	13.9	(1.0)
Cash ROE (%) (e)	**17.5**	20.0	19.8	18.2	16.4	15.7	NA	NA	NA	NA
Return on average assets (%)	**0.59**	0.66	0.74	0.68	0.68	0.63	0.61	0.63	0.64	(0.05)
Return on average assets available to common shareholders (%)	**0.54**	0.62	0.69	0.64	0.62	0.57	0.55	0.58	0.58	(0.11)

(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.
(b) As at October 31
(c) Refer to the Glossary on page 92 for a definition of the taxable equivalent basis (TEB) adjustment.
(d) Cash EPS is earnings per share as reported adjusted for the after-tax impact on earnings of non-cash goodwill and other valuation intangibles.
(e) Cash ROE is return on common shareholders' equity as reported adjusted for the after-tax impact on earnings and common shareholders' equity of non-cash goodwill and other valuation intangibles.
NA – Not available
nm – Not meaningful

TABLE 4 TOTAL REVENUE DETAIL ($ millions except as noted)

For the year ended October 31	1998	1997*	1996*	1995	1994	1993	1992	1991	1990	1989
Total revenue (TEB) (a)	**7,270**	7,167	6,227	5,666	5,196	4,861	4,442	3,995	3,653	3,586
Year-over-year growth (%)	**1.4**	15.1	9.9	9.0	6.9	9.4	11.2	9.4	1.9	(1.8)
Net Interest Income										
Net interest income as reported	**4,024**	4,077	3,603	3,480	3,258	3,139	2,971	2,666	2,504	2,495
Taxable equivalent adjustment (TEB) (a)	**128**	109	108	84	67	68	67	68	71	73
Net interest income (TEB) (a)	**4,152**	4,186	3,711	3,564	3,325	3,207	3,038	2,734	2,575	2,568
Year-over-year growth (%)	**(0.8)**	12.8	4.1	7.2	3.7	5.6	11.1	6.2	0.2	(1.5)
Net interest income (TEB) (a)	**4,152**	4,186	3,711	3,564	3,325	3,207				
Less: Non-operating items										
Lesser-developed countries (LDC) interest income	**17**	121	73	79	141	156				
Trading interest income	**93**	36	9	23	23	76				
Interest income on impaired loans (excluding LDC)	**45**	129	43	22	35	40				
Operating net interest income (TEB) (a)	**3,997**	3,900	3,586	3,440	3,126	2,935				
Year-over-year growth (%)	**2.5**	8.8	4.2	10.0	6.6	3.8				
Spread										
Total average assets (b)	**227,450**	196,721	158,316	144,115	122,234	113,387	104,591	94,118	81,971	78,878
Average net interest spread (%)	**1.83**	2.13	2.34	2.47	2.72	2.83	2.90	2.91	3.14	3.26
Average operating net interest spread (%)	**1.76**	1.98	2.26	2.39	2.56	2.59				
Average Canadian dollar spread (%)	**2.52**	2.70	2.94	3.39	3.48	3.44	3.65	3.43	3.29	3.54
Average U.S. dollar and other currencies spread (%)	**1.17**	1.48	1.58	1.22	1.59	1.94	1.84	2.11	2.90	2.86
Other Income										
Deposit and payment service charges	**558**	508	473	451	437	430				
Lending fees	**290**	240	194	186	180	145				
Capital market fees	**869**	919	760	495	313	238				
Card services	**196**	251	234	230	211	208				
Investment management and custodial fees	**407**	299	221	240	197	194				
Mutual fund revenues	**199**	155	87	53	56	30				
Trading revenue	**40**	276	277	225	226	202				
Securitization revenues	**158**	32	0	0	0	0				
Other fees and commissions										
Revenue from insurance-related activities	**62**	62	44	36	51	18				
Gain/(loss) on disposal of premises and equipment	**7**	(5)	(22)	(26)	(12)	4				
Foreign exchange revenue other than trading	**103**	126	120	99	89	48				
Investment securities gains/(losses)	**97**	52	71	46	37	40				
Other	**132**	66	57	67	86	97				
Total other fees and commissions	**401**	301	270	222	251	207				
Total other income	**3,118**	2,981	2,516	2,102	1,871	1,654	1,404	1,261	1,078	1,018
Year-over-year growth (%)	**4.6**	18.5	19.7	12.3	13.1	17.8	11.4	16.9	5.8	(2.6)
Other income as a % of total revenue	**42.9**	41.6	40.4	37.1	36.0	34.0	31.6	31.5	29.5	28.4
Total other income	**3,118**	2,981	2,516	2,102	1,871	1,654				
Less: Non-operating items										
Total trading revenue	**40**	276	277	225	226	202				
Investment securities gains/(losses)	**97**	52	71	46	37	40				
Non-recurring items	**1**	0	0	0	0	0				
Operating other income	**2,980**	2,653	2,168	1,831	1,608	1,412				
Year-over-year growth (%)	**12.3**	22.5	18.4	13.8	13.9	13.7				
Other Information (units – as at October 31)										
Number of employees (c)	**33,400**	34,286	33,468	33,341	34,769	32,067	32,126	32,130	33,580	33,666
Number of bank branches	**1,216**	1,246	1,296	1,245	1,248	1,214	1,231	1,239	1,242	1,230
Number of automated banking machines (Canada)	**2,069**	2,035	2,017	1,763	1,708	1,538	1,293	1,221	1,163	937
Rates										
Average Canadian prime rate (%)	**6.44**	4.80	6.67	8.58	6.42	6.44	7.49	10.74	14.11	13.01
Average U.S. prime rate (%)	**8.59**	8.51	8.49	8.89	6.69	6.04	6.59	9.02	10.25	10.99
Canadian/U.S. dollar exchange rates ($) (d)										
High	**1.40**	1.33	1.34	1.33	1.29	1.24	1.12	1.12	1.13	1.17
Low	**1.58**	1.41	1.38	1.42	1.40	1.34	1.26	1.17	1.21	1.24
Average	**1.46**	1.37	1.37	1.38	1.36	1.29	1.19	1.15	1.17	1.19
End of period	**1.54**	1.41	1.34	1.34	1.35	1.32	1.24	1.12	1.17	1.17

*Reclassified to conform with the current year's presentation.

(a) Refer to the Glossary on page 92 for a definition of the taxable equivalent basis (TEB) adjustment.

(b) Daily averages for 1990 to 1998.

(c) This number constitutes full-time equivalent number of employees, comprising full-time, part-time and over-time employees.

(d) Rates are expressed in Canadian dollars. Rates are the noon buying rates in New York for cable transfer in U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York, i.e., "the Noon Buying Rate".

SUPPLEMENTAL INFORMATION

TABLE 5 AVERAGE BALANCES AND AVERAGE INTEREST RATES OF ASSETS AND LIABILITIES ($ millions except as noted)

	1998			1997			1996		
For the year ended October 31	Average balances	Average interest yield (%)	Interest income	Average balances	Average interest yield (%)	Interest income	Average balances	Average interest yield (%)	Interest income
Assets									
Canadian Dollars									
Deposits with other banks	1,931	4.36	84	2,387	3.19	76	2,097	4.87	102
Securities	23,322	5.20	1,214	21,693	4.93	1,069	20,475	6.44	1,319
Loans									
Residential mortgages	33,945	6.58	2,233	30,415	6.88	2,091	26,625	7.83	2,084
Non-residential mortgages	1,801	7.16	129	1,621	7.86	128	1,531	8.94	137
Consumer instalment and other personal loans	12,575	7.64	960	11,389	6.76	769	10,509	8.18	859
Credit card loans	810	11.69	95	2,264	11.10	251	2,405	12.93	311
Loans to businesses and governments (a)	25,072	7.09	1,777	24,802	5.72	1,419	19,295	7.27	1,402
Total loans	74,203	7.00	5,194	70,491	6.61	4,658	60,365	7.94	4,793
Other non-interest bearing assets	11,053			10,191			6,087		
Total Canadian dollars	110,509	5.88	6,492	104,762	5.54	5,803	89,024	6.98	6,214
U.S. Dollar and Other Currencies									
Deposits with other banks	24,595	5.80	1,427	22,909	5.48	1,256	16,462	5.36	882
Securities	24,005	6.28	1,508	17,118	6.90	1,182	12,842	7.08	909
Loans									
Residential mortgages	3,033	7.36	223	2,009	7.66	154	1,538	7.82	120
Non-residential mortgages	965	8.47	83	671	8.42	56	358	8.53	30
Consumer instalment and other personal loans	2,883	8.45	243	2,404	8.49	204	1,612	8.36	135
Credit card loans	341	15.77	54	1,194	14.27	170	1,356	13.34	181
Loans to businesses and governments (a)	49,261	8.57	4,219	36,367	7.75	2,818	29,369	7.22	2,121
Total loans	56,483	8.54	4,822	42,645	7.98	3,402	34,233	7.56	2,587
Other non-interest bearing assets	11,858			9,287			5,755		
Total U.S. dollar and other currencies	116,941	6.63	7,757	91,959	6.35	5,840	69,292	6.32	4,378
Total All Currencies									
Total assets and interest income	227,450	6.27	14,249	196,721	5.92	11,643	158,316	6.69	10,592

	1998			1997			1996		
For the year ended October 31	Average balances	Average interest cost (%)	Interest expense	Average balances	Average interest cost (%)	Interest expense	Average balances	Average interest cost (%)	Interest expense
Liabilities									
Canadian Dollars									
Deposits									
Banks	3,638	4.57	166	3,468	2.99	104	2,749	4.13	114
Businesses and governments	26,895	3.75	1,009	19,901	1.35	269	13,288	3.87	514
Individuals	43,291	3.17	1,373	43,784	3.25	1,421	44,156	4.50	1,985
Total deposits	73,824	3.45	2,548	67,153	2.67	1,794	60,193	4.34	2,613
Subordinated debt and other interest bearing liabilities	19,086	6.11	1,165	21,599	5.49	1,184	15,667	6.27	982
Other non-interest bearing liabilities	8,159			8,080			6,185		
Total Canadian dollars	101,069	3.67	3,713	96,832	3.08	2,978	82,045	4.38	3,595
U.S. Dollar and Other Currencies									
Deposits									
Banks	30,105	5.53	1,664	25,457	5.35	1,362	21,896	5.37	1,175
Businesses and governments	34,202	7.25	2,480	26,156	5.67	1,483	21,249	4.43	942
Individuals	15,003	3.76	563	13,275	4.29	569	9,809	4.12	404
Total deposits	79,310	5.93	4,707	64,888	5.26	3,414	52,954	4.76	2,521
Subordinated debt and other interest bearing liabilities	27,867	6.02	1,677	19,693	5.41	1,065	14,155	5.40	765
Other non-interest bearing liabilities	9,398			7,034			1,842		
Total U.S. dollar and other currencies	116,575	5.48	6,384	91,615	4.89	4,479	68,951	4.76	3,286
Total All Currencies									
Total liabilities and interest expense	217,644	4.64	10,097	188,447	3.96	7,457	150,996	4.56	6,881
Shareholders' equity	9,806			8,274			7,320		
Total liabilities, interest expense and shareholders' equity	227,450	4.44	10,097	196,721	3.79	7,457	158,316	4.35	6,881
Net interest spread on average assets and net interest income		1.83	4,152		2.13	4,186		2.34	3,711

The above table presents daily average balances and average yield and cost on assets and liabilities on a taxable equivalent basis.
Refer to the Glossary on page 92 for a definition of the taxable equivalent basis (TEB) adjustment.
(a) Includes securities purchased under resale agreements.

TABLE 6 VOLUME/RATE ANALYSIS OF CHANGES IN NET INTEREST INCOME ($ millions)

	1998/1997			1997/1996		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
For the year ended October 31	Average balance	Average rate	Total	Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	(15)	23	8	14	(40)	(26)
Securities	81	64	145	78	(328)	(250)
Loans						
Residential mortgages	243	(101)	142	296	(289)	7
Non-residential mortgages	14	(13)	1	9	(18)	(9)
Consumer instalment and other personal loans	81	110	191	72	(162)	(90)
Credit card loans	(161)	5	(156)	(19)	(41)	(60)
Loans to businesses and governments (a)	14	344	358	401	(384)	17
Total loans	191	345	536	759	(894)	(135)
Change in Canadian dollar interest income	257	432	689	851	(1,262)	(411)
U.S. Dollar and Other Currencies						
Deposits with other banks	93	78	171	345	29	374
Securities	475	(149)	326	303	(30)	273
Loans						
Residential mortgages	78	(9)	69	37	(3)	34
Non-residential mortgages	27	0	27	27	(1)	26
Consumer instalment and other personal loans	40	(1)	39	66	3	69
Credit card loans	(121)	5	(116)	(22)	11	(11)
Loans to businesses and governments (a)	998	403	1,401	506	191	697
Total loans	1,022	398	1,420	614	201	815
Change in U.S. dollar and other currencies interest income	1,590	327	1,917	1,262	200	1,462
Total All Currencies						
Change in total interest income	1,847	759	2,606	2,113	(1,062)	1,051
Liabilities						
Canadian Dollars						
Deposits						
Banks	4	58	62	30	(40)	(10)
Businesses and governments	96	644	740	255	(500)	(245)
Individuals	(16)	(32)	(48)	(16)	(548)	(564)
Total deposits	84	670	754	269	(1,088)	(819)
Subordinated debt and other interest bearing liabilities	(138)	119	(19)	371	(169)	202
Change in Canadian dollar interest expense	(54)	789	735	640	(1,257)	(617)
U.S. Dollar and Other Currencies						
Deposits						
Banks	249	53	302	191	(4)	187
Businesses and governments	457	540	997	217	324	541
Individuals	74	(80)	(6)	143	22	165
Total deposits	780	513	1,293	551	342	893
Subordinated debt and other interest bearing liabilities	441	171	612	299	1	300
Change in U.S. dollar and other currencies interest expense	1,221	684	1,905	850	343	1,193
Total All Currencies						
Change in total interest expense	1,167	1,473	2,640	1,490	(914)	576
Change in total net interest income	680	(714)	(34)	623	(148)	475

The above table presents changes in net interest income, on a taxable equivalent basis, due to changes in either average daily balances (i.e., volume), or average rates.
Refer to the Glossary on page 92 for a definition of the taxable equivalent basis (TEB) adjustment.
(a) Includes securities purchased under resale agreements.

SUPPLEMENTAL INFORMATION

TABLE 7 INTEREST RATE GAP POSITION ($ millions)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	2–5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	Total
Canadian Dollars												
Assets												
Cash resources	978	142	426	1,546	4.22	280	0.00	0	0.00	3,470	0.00	5,296
Securities	13,989	171	1,205	15,365	5.59	1,195	8.73	644	7.82	12	na	17,216
Loans	29,626	5,612	7,423	42,661	7.19	24,648	6.60	1,078	7.33	1	na	68,388
Other	4,667	105	211	4,983	na	1,688	na	0	na	3,237	na	9,908
Total assets	49,260	6,030	9,265	64,555		27,811		1,722		6,720		100,808
Liabilities												
Deposits	34,534	4,224	11,959	50,717	3.64	18,553	3.51	168	5.46	0	na	69,438
Subordinated debt	160	0	0	160	5.46	1,400	7.03	1,765	7.73	0	na	3,325
Other	7,118	532	1,963	9,613	5.70	1,320	1.47	0	0.00	6,890	na	17,823
Shareholders' equity	72	0	200	272	na	250	na	1,050	na	8,650	na	10,222
Total liabilities and shareholders' equity	41,884	4,756	14,122	60,762		21,523		2,983		15,540		100,808
On-balance sheet gap position	7,376	1,274	(4,857)	3,793		6,288		(1,261)		(8,820)		0
Off-balance sheet gap position	(5,300)	163	(2,914)	(8,051)		5,311		2,740		0		0
Total interest rate gap position												
1998	**2,076**	**1,437**	**(7,771)**	**(4,258)**		**11,599**		**1,479**		**(8,820)**		**0**
1997	(1,033)	516	(2,981)	(3,498)		10,159		988		(7,649)		0
1996	(5,776)	2,561	(183)	(3,398)		15,303		(267)		(11,638)		0
1995	(2,807)	868	(1,446)	(3,385)		12,948		857		(10,420)		0
1994	(2,954)	2,725	(2,103)	(2,332)		8,802		907		(7,377)		0
U.S. Dollar and Other Currencies												
Assets												
Cash resources	10,832	2,476	3,074	16,382	5.63	1,537	0.00	577	2.52	(4,062)	0.00	14,434
Securities	11,656	1,025	1,737	14,418	5.43	5,845	6.30	5,163	6.96	823	na	26,249
Loans	49,941	3,264	2,032	55,237	6.10	4,605	6.96	1,183	6.05	278	na	61,303
Other	6,536	(45)	93	6,584	na	2,476	na	492	na	10,244	na	19,796
Total assets	78,965	6,720	6,936	92,621		14,463		7,415		7,283		121,782
Liabilities												
Deposits	54,534	7,060	4,358	65,952	5.00	5,513	1.62	2,468	0.89	612	na	74,545
Subordinated debt	540	0	0	540	5.62	0	0.00	926	6.95	0	na	1,466
Other	37,342	387	438	38,167	4.00	529	2.19	353	7.38	6,336	na	45,385
Shareholders' equity	0	0	0	0	na	386	na	0	na	0	na	386
Total liabilities and shareholders' equity	92,416	7,447	4,796	104,659		6,428		3,747		6,948		121,782
On-balance sheet gap position	(13,451)	(727)	2,140	(12,038)		8,035		3,668		335		0
Off-balance sheet gap position	927	1,458	1,118	3,503		(355)		(3,148)		0		0
Total interest rate gap position												
1998	**(12,524)**	**731**	**3,258**	**(8,535)**		**7,680**		**520**		**335**		**0**
1997	(19,243)	3,155	10,572	(5,516)		4,491		214		811		0
1996	(11,184)	2,821	5,924	(2,439)		1,689		852		(102)		0
1995	(4,910)	3,566	792	(552)		3,063		402		(2,913)		0
1994	(352)	(2,939)	1,490	(1,801)		4,109		287		(2,595)		0

na – Not applicable

Gap Position

The determination of the interest rate sensitivity or "gap" position, which is based upon the earlier of the repricing or maturity date of assets, liabilities and derivatives used to manage interest rate risk, by necessity, encompasses numerous assumptions.

The gap position presented is at October 31 of each respective year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based upon customer preferences and the application of the Bank's asset and liability management policies.

The assumptions for 1998 are as follows:

Deposits/Liabilities

Interest bearing, non-maturity deposits on which the interest rates have historically moved in reference to a specific interest rate basis, such as prime, and which are above the minimum interest committed are reported as interest sensitive in the 0–3 month category. Such deposits may be sensitive to declining rates only to the extent of the minimum interest rate committed. When they no longer demonstrate correlation with market interest rate movements, they are reported in time periods based on expected balance behaviour.

Investment certificates are reported based upon scheduled maturity without reference to early redemption or renewal options.

Term deposits are reported based upon scheduled maturity and estimated redemption based upon historical behaviour.

Fixed rate non-maturity liabilities and non-interest bearing non-maturity liabilities are reported based upon historical account balance behaviour.

Capital

Common Shareholders' Equity is reported as non-interest sensitive.

Assets

Fixed term assets such as residential mortgages and consumer loans are reported based upon the scheduled repayments and estimated prepayments based upon historical behaviour.

Trading assets are reported in the 0–3 month category.

Fixed rate, non-maturity assets and non-interest bearing non-maturity assets are reported based upon historical balance behaviour.

Yields

Yields are based upon the contractual interest rate in effect for the assets or liabilities on the reporting date.

Prior to 1997 non-maturity assets and liabilities were reported as non-interest sensitive.

TABLE 8 NON-INTEREST EXPENSES AND EXPENSE-TO-REVENUE RATIOS ($ millions except as noted)

For the year ended October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Non-Interest Expense Summary										
Total non-interest expense	**4,833**	4,613	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330
Less: Goodwill and other valuation intangibles	**72**	74	54	49	31	30	36	36		
Charges/non-recurring items (a)	**0**	75	23	60	71	0	18	24		
Total operating non-interest expense	**4,761**	4,464	3,872	3,537	3,121	2,886	2,711	2,545		
Year-over-year growth (%)										
Total	**4.7**	16.8	8.3	13.1	10.5	5.5	6.1	6.2	5.3	1.4
Operating	**6.6**	15.3	9.5	13.3	8.1	6.5	6.5	7.7		
Non-Interest Expense Detail										
Salaries	**2,370**	2,284	1,972	1,758	1,567	1,455	1,348	1,277		
Employee benefits	**204**	251	238	241	228	209	201	167		
Total salaries and employee benefits	**2,574**	2,535	2,210	1,999	1,795	1,664	1,549	1,444		
Premises and equipment										
Rental of real estate	**147**	149	139	136	125	123	114	101		
Premises, furniture and fixtures	**256**	234	215	206	188	177	170	179		
Property taxes	**51**	40	40	41	39	40	37	40		
Computers and equipment	**518**	493	333	296	248	240	234	215		
Total premises and equipment	**972**	916	727	679	600	580	555	535		
Communications	**266**	246	219	208	180	165	167	174		
Other expenses										
Business and capital taxes	**134**	128	116	110	95	92	82	64		
Professional fees	**320**	250	173	141	112	64	63	55		
Travel and business development	**234**	238	199	161	144	122	112	156		
Deposit insurance premiums (b)	**75**	73	94	84	76	62	55	48		
Other	**186**	153	157	155	119	137	146	93		
Total other expenses	**949**	842	739	651	546	477	458	416		
Goodwill and other valuation intangibles	**72**	74	54	49	31	30	36	36		
Special charge	**0**	0	0	0	71	0	0	0		
Business process improvement initiative charge	**0**	0	0	60	0	0	0	0		
Total non-interest expense	**4,833**	4,613	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330
Government Levies and Taxes (c)										
Government levies other than income taxes										
Payroll levies	**128**	123	109	106	95	88	83	72		
Property taxes	**51**	40	40	41	39	40	37	40		
Provincial capital taxes	**120**	104	89	84	71	71	59	42		
Business taxes	**14**	24	27	26	24	21	23	22		
Goods and services tax and sales tax	**125**	114	101	88	70	64	61	49		
Deposit insurance	**75**	73	94	84	76	62	55	48		
Total government levies other than income taxes	**513**	478	460	429	375	346	318	273		
Provision for income taxes reported in:										
Statement of income	**804**	840	757	662	560	487	416	384		
Statement of retained earnings	**(237)**	(92)	10	9	(23)	(46)	(70)	37		
Total income taxes	**567**	748	767	671	537	441	346	421		
Total government levies and taxes	**1,080**	1,226	1,227	1,100	912	787	664	694		
Total government levies and taxes as a % of net income before taxes and government levies	**40.5**	46.7	51.4	53.0	51.8	51.1	48.3	55.4		
Productivity Analysis										
Expense-to-revenue ratio (%)	**66.5**	64.4	63.4	64.3	62.0	60.0	62.2	65.2	67.2	65.0
Non-recurring revenue	**1**	0	0	0	0	0	6	(8)		
Adjusted expense-to-revenue ratio (%) (d)	**65.5**	62.3	62.2	62.4	60.1	59.4	61.1	63.6		
Adjusted expense-to-revenue ratio (d) excluding Investment and Corporate Banking (%)	**60.3**	59.0	59.2	59.7	58.5	58.2	NA	NA		

(a) The charge/non-recurring item in 1997 is a charge for accelerated depreciation related to technology changes and credit process efficiency improvements, in 1996 is the Harris Savings Association Insurance Fund (SAIF) charge, in 1995 is the business process improvement initiative charge and in 1994 is the Harris special charge.

(b) Includes the SAIF charge.

(c) Government levies are included in various non-interest expense categories.

(d) The adjusted expense-to-revenue ratio excludes non-recurring expenses, goodwill and other valuation intangibles from expenses and non-recurring revenues from total revenue.

NA – Not available

SUPPLEMENTAL INFORMATION

TABLE 9 NET LOANS AND ACCEPTANCES – SEGMENTED INFORMATION ($ millions)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
Individuals															
Residential mortgages (b)	**29,823**	30,995	26,539	23,412	21,588	**3,502**	2,594	1,926	1,490	1,118	**0**	0	0	0	0
Cards	**783**	877	2,528	2,357	2,133	**14**	1,035	1,314	1,482	1,128	**0**	0	0	0	0
Personal Loans	**12,988**	12,007	10,739	10,365	9,763	**3,098**	2,664	2,058	1,388	1,228	**0**	0	0	0	0
Total loans to individuals	**43,594**	43,879	39,806	36,134	33,484	**6,614**	6,293	5,298	4,360	3,474	**0**	0	0	0	0
Commercial, corporate and institutional															
Diversified commercial	**27,097**	26,152	23,326	23,657	23,095	**28,683**	23,497	19,075	17,132	16,405	**749**	433	485	430	489
Securities purchased under resale agreements	**6,350**	7,679	6,960	4,772	5,265	**13,715**	10,721	7,121	5,733	9,307	**0**	0	0	0	0
Total commercial, corporate and institutional	**33,447**	33,831	30,286	28,429	28,360	**42,398**	34,218	26,196	22,865	25,712	**749**	433	485	430	489
General allowance	**(735)**	(625)	(425)	(275)	(150)	**(150)**	(150)	(50)	(50)	(50)	**0**	0	0	0	0
Designated lesser-developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Total net loans and acceptances	**76,306**	77,085	69,667	64,288	61,694	**48,862**	40,361	31,444	27,175	29,136	**749**	433	485	430	489

TABLE 10 ALLOWANCE FOR CREDIT LOSSES – SEGMENTED INFORMATION ($ millions except as noted)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
Allowance for credit losses (ACL), beginning of year	**895**	737	590	653	843	**246**	290	298	359	483	**0**	0	0	0	0
Provision for credit losses	**77**	330	156	171	276	**38**	(55)	69	104	238	**0**	0	0	0	0
Transfer of allowance	**(17)**	0	150	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Recoveries	**29**	43	15	15	18	**35**	115	88	37	56	**0**	0	0	0	0
Write-offs (e)	**(116)**	(216)	(174)	(255)	(488)	**(76)**	(118)	(170)	(195)	(456)	**0**	0	0	0	0
Other, including foreign exchange	**0**	1	0	6	4	**25**	14	5	(7)	38	**0**	0	0	0	0
ACL, end of year	**868**	895	737	590	653	**268**	246	290	298	359	**0**	0	0	0	0
Allocation of Write-offs by Market															
Individuals	**(60)**	(106)	(90)	(74)	(74)	**(33)**	(96)	(60)	(50)	(45)	**0**	0	0	0	0
Commercial, corporate and institutional	**(56)**	(110)	(84)	(181)	(414)	**(43)**	(22)	(110)	(145)	(411)	**0**	0	0	0	0
Designated lesser-developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Allocation of Recoveries by Market															
Individuals	**16**	11	15	17	22	**7**	10	11	14	14	**0**	0	0	0	0
Commercial, corporate and institutional	**13**	32	0	(2)	(4)	**28**	105	77	23	42	**0**	0	0	0	0
Designated LDC	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Net write-offs as a % of average loans and acceptances															

(a) Geographic location is based on the ultimate risk of the underlying asset. Provincial location is based on the booking location and/or customer residency.
(b) Excludes residential mortgages classified as commercial corporate loans (1998 – $2.5 billion, 1997 – $2.0 billion, 1996 – $1.6 billion, 1995 – $1.5 billion, 1994 – $1.5 billion).
(c) No provision for securities purchased under resale agreements.
(d) Excludes the general allowance.
(e) Write-offs on designated lesser-developed countries include losses on sales of performing assets that were charged directly against the allowance (1998 – $0, 1997 – $3 million, 1996 – $109 million, 1995 – $115 million, 1994 – $0).

Other countries (a)					Total				
1998	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
0	0	0	0	0	**33,325**	33,589	28,465	24,902	22,706
0	0	0	0	0	**797**	1,912	3,842	3,839	3,261
0	0	0	3	4	**16,086**	14,671	12,797	11,756	10,995
0	0	0	3	4	**50,208**	50,172	45,104	40,497	36,962
3,378	2,665	1,453	1,272	950	**59,907**	52,747	44,339	42,491	40,939
7,455	117	0	0	0	**27,520**	18,517	14,081	10,505	14,572
10,833	2,782	1,453	1,272	950	**87,427**	71,264	58,420	52,996	55,511
0	0	0	0	0	**(885)**	(775)	(475)	(325)	(200)
288	263	211	230	370	**288**	263	211	230	370
11,121	3,045	1,664	1,505	1,324	**137,038**	120,924	103,260	93,398	92,643

As at October 31	**1998**	1997	1996	1995	1994
Net Loans and Acceptances in Canada by Province (a)					
Atlantic Provinces	**4,250**	3,815	3,466	3,304	3,175
Quebec	**11,714**	10,179	10,237	10,610	9,523
Ontario	**34,421**	38,456	35,240	30,971	31,106
Prairie Provinces	**13,741**	13,133	10,174	9,628	8,091
British Columbia and Territories	**12,915**	12,127	10,975	10,050	9,949
Total loans and acceptances in Canada (d)	**77,041**	77,710	70,092	64,563	61,844
Diversified Commercial by Industry					
Financial institutions	**9,468**	8,854	8,620	7,217	7,446
Commercial mortgages	**5,626**	4,552	3,542	3,378	3,570
Construction (non-real estate)	**1,056**	1,011	949	886	754
Commercial real estate	**3,601**	3,034	2,737	3,404	4,474
Manufacturing	**12,460**	9,267	7,163	7,064	5,697
Mining/Energy	**4,086**	4,058	3,003	2,431	2,079
Service industries	**6,600**	6,407	5,667	5,401	4,512
Retail trade	**2,556**	2,752	2,319	2,574	2,637
Wholesale trade	**3,912**	3,408	2,739	2,565	2,220
Agriculture	**2,471**	2,036	1,719	1,910	1,731
Transportation/Utilities	**3,686**	3,227	2,338	2,031	2,404
Communications	**2,200**	2,332	2,368	2,013	1,626
Other	**2,185**	1,809	1,175	1,617	1,789
Total diversified commercial	**59,907**	52,747	44,339	42,491	40,939

Other countries (a)					Total				
1998	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
98	116	367	484	673	**1,239**	1,143	1,255	1,496	1,999
15	0	0	0	(4)	**130**	275	225	275	510
17	0	(150)	0	0	**0**	0	0	0	0
0	0	0	0	1	**64**	158	103	52	75
(3)	(23)	(105)	(115)	(203)	**(195)**	(357)	(449)	(565)	(1,147)
9	5	4	(2)	17	**34**	20	9	(3)	59
136	98	116	367	484	**1,272**	1,239	1,143	1,255	1,496
0	0	0	0	0	**(93)**	(202)	(150)	(124)	(119)
0	0	0	0	0	**(99)**	(132)	(194)	(326)	(825)
(3)	(23)	(105)	(115)	(203)	**(3)**	(23)	(105)	(115)	(203)
0	0	0	0	0	**23**	21	26	31	36
0	0	0	0	0	**41**	137	77	21	38
0	0	0	0	1	**0**	0	0	0	1
					0.1	0.2	0.3	0.6	1.3

PROVISION FOR CREDIT LOSSES – SEGMENTED INFORMATION

For the year ended October 31	**1998**	1997	1996	1995	1994
Individuals					
Residential mortgages	**7**	7	6	3	5
Cards	**26**	138	96	67	61
Personal loans	**30**	32	23	26	23
Total individuals	**63**	177	125	96	89
Diversified commercial					
Financial institutions	**12**	(26)	62	2	7
Commercial mortgages	**0**	1	5	2	12
Construction (non-real estate)	**3**	0	3	2	16
Commercial real estate	**(66)**	(146)	(61)	17	320
Manufacturing	**7**	8	20	(2)	(22)
Mining/Energy	**(3)**	(24)	(18)	17	(10)
Service industries	**(19)**	19	43	13	6
Retail trade	**(5)**	0	9	(10)	(3)
Wholesale trade	**1**	7	8	1	30
Agriculture	**(5)**	7	3	0	(3)
Transportation/Utilities	**20**	(11)	16	(4)	1
Communications	**13**	36	0	(2)	(2)
Other	**(1)**	27	10	18	20
Total commercial, corporate and institutional (c)	**(43)**	(102)	100	54	372
Net charge to earnings for general provision	**110**	200	0	125	50
Designated lesser developed countries	**0**	0	0	0	(1)
Total provision for credit losses (PCL)	**130**	275	225	275	510

SUPPLEMENTAL INFORMATION

TABLE 11 ALLOCATION OF ALLOWANCE FOR CREDIT LOSSES – SEGMENTED INFORMATION ($ millions except as noted)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
Individuals															
Residential mortgages	**4**	9	9	6	6	**0**	0	0	0	0	**0**	0	0	0	0
Cards	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Personal loans	**4**	5	9	8	10	**5**	6	6	9	8	**0**	0	0	0	0
Total individuals	**8**	14	18	14	16	**5**	6	6	9	8	**0**	0	0	0	0
Diversified commercial (b)	**125**	255	292	301	487	**113**	90	234	239	301	**0**	0	0	0	0
General allowance	**735**	625	425	275	150	**150**	150	50	50	50	**0**	0	0	0	0
Designated lesser-developed countries (LDC)															
Specific allowance	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Country risk allowance	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Off-balance sheet	**0**	1	2	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Allowance for credit losses (ACL)	**868**	895	737	590	653	**268**	246	290	298	359	**0**	0	0	0	0
Coverage Ratios															
ACL as a % of gross impaired loans and acceptances (GIL)	**170.9**	169.3	91.9	78.2	57.3	**118.6**	96.9	49.2	30.8	28.8	**0.0**	0.0	0.0	0.0	0.0
ACL as a % of GIL (c)															
Individuals	**5.4**	10.8	10.8	12.5	16.0	**100.0**	100.0	100.0	100.0	100.0	**0.0**	0.0	0.0	0.0	0.0
Diversified commercial (b)	**34.6**	64.1	46.1	46.9	46.8	**51.1**	36.3	40.1	24.9	24.3	**0.0**	0.0	0.0	0.0	0.0
Designated LDC (d)	**na**	na	na	na	na	**na**	na	na	na	na	**na**	na	na	na	na

TABLE 12 NET IMPAIRED LOANS AND ACCEPTANCES (NIL) – SEGMENTED INFORMATION ($ millions except as noted)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
Individuals															
Residential mortgages	**105**	94	122	66	45	**0**	0	0	0	0	**0**	0	0	0	0
Cards	**5**	3	5	4	11	**0**	0	0	0	0	**0**	0	0	0	0
Personal loans	**29**	19	22	28	28	**0**	0	0	0	0	**0**	0	0	0	0
Total individuals	**139**	116	149	98	84	**0**	0	0	0	0	**0**	0	0	0	0
Diversified commercial (b)	**236**	143	341	341	553	**108**	158	349	721	939	**0**	0	0	0	0
General allowance	**(735)**	(625)	(425)	(275)	(150)	**(150)**	(150)	(50)	(50)	(50)	**0**	0	0	0	0
Designated lesser-developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Total net impaired loans and acceptances	**(360)**	(366)	65	164	487	**(42)**	8	299	671	889	**0**	0	0	0	0
Condition Ratios															
Gross impaired loans and acceptances (GIL) as a % of equity and allowance for credit losses	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA
NIL as a % of net loans and acceptances	**(0.47)**	(0.47)	0.09	0.26	0.79	**(0.09)**	0.02	0.95	2.47	3.05	**0.00**	0.00	0.00	0.00	0.00
NIL as a % of net loans and acceptances (e)															
Individuals	**0.32**	0.26	0.37	0.27	0.25	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00
Diversified commercial	**0.87**	0.55	1.46	1.44	2.39	**0.38**	0.67	1.82	4.21	5.72	**0.00**	0.00	0.00	0.00	0.00
Designated LDC	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00

(a) Geographic location is based on the ultimate risk of the underlying asset.
(b) No allowance or impaired exposure for securities purchased under resale agreements.
(c) Segment ACL as a percentage of segment GIL.
(d) Excludes LDC reservations in excess of impaired loans (1998 – $98 million, 1997 – $93 million, 1996 – $108 million, 1995 – $360 million, 1994 – $425 million).
(e) Segmented NIL as a percentage of segment net loans and acceptances.
(f) Includes allowance of U.S. subsidiary in excess of impaired loans.
na – Not applicable
NA – Not available

Other countries (a)					Total				
1998	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
0	0	0	0	0	**4**	9	9	6	6
0	0	0	0	0	**0**	0	0	0	0
0	0	0	0	0	**9**	11	15	17	18
0	0	0	0	0	**13**	20	24	23	24
24	0	0	0	0	**262**	345	526	540	788
0	0	0	0	0	**885**	775	475	325	200
0	0	1	0	0	**0**	0	1	0	0
104	98	115	367	484	**104**	98	115	367	484
8	0	0	0	0	**8**	1	2	0	0
136	98	116	367	484	**1,272**	1,239	1,143	1,255	1,496
142.2	100.0	100.0	100.0	100.0	**153.3**	157.2	81.7	72.5	61.1
0.0	0.0	0.0	0.0	0.0	**8.6**	14.7	13.9	19.0	22.0
28.6	0.0	0.0	0.0	0.0	**39.3**	53.4	43.2	33.7	34.6
100.0	100.0	100.0	100.0	100.0	**100.0**	100.0	100.0	100.0	100.0

As at October 31	**1998**	1997	1996	1995	1994
Diversified Commercial Specific Allowance by Industry					
Financial institutions	**27**	28	62	24	29
Commercial mortgages	**5**	6	11	17	20
Construction (non-real estate)	**4**	23	6	11	27
Commercial real estate	**35**	71	148	274	393
Manufacturing	**62**	44	34	19	75
Mining/Energy	**4**	8	22	45	84
Service industries	**31**	56	57	45	31
Retail trade	**8**	19	33	23	69
Wholesale trade	**13**	12	10	7	24
Agriculture	**4**	12	5	2	13
Transportation/Utilities	**20**	8	18	7	19
Communications	**8**	15	0	0	0
Other	**41**	43	120	66	4
Total diversified commercial specific allowance (b)	**262**	345	526	540	788

Other countries (a)					Total				
1998	1997	1996	1995	1994	**1998**	1997	1996	1995	1994
0	0	0	0	0	**105**	94	122	66	45
0	0	0	0	0	**5**	3	5	4	11
0	0	0	0	0	**29**	19	22	28	28
0	0	0	0	0	**139**	116	149	98	84
60	0	0	0	0	**404**	301	690	1,062	1,492
0	0	0	0	0	**(885)**	(775)	(475)	(325)	(200)
0	0	0	0	0	**0**	0	0	0	0
60	0	0	0	0	**(342)**	(358)	364	835	1,376
NA	NA	NA	NA	NA	**6.66**	7.65	15.71	20.48	29.86
0.54	0.00	0.00	0.00	0.00	**(0.25)**	(0.30)	0.35	0.89	1.49
0.00	0.00	0.00	0.00	0.00	**0.28**	0.23	0.33	0.24	0.23
1.78	0.00	0.00	0.00	0.00	**0.67**	0.57	1.56	2.50	3.64
0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00

As at October 31	**1998**	1997	1996	1995	1994
Diversified Commercial Net Impaired Loans by Industry					
Financial institutions	**8**	1	59	1	5
Commercial mortgages	**15**	24	39	50	51
Construction (non-real estate)	**4**	6	3	2	3
Commercial real estate	**122**	148	463	846	1,003
Manufacturing	**41**	19	21	27	104
Mining/Energy	**36**	30	37	67	143
Service industries	**47**	44	40	33	20
Retail trade	**17**	9	30	17	100
Wholesale trade	**9**	9	38	22	8
Agriculture	**15**	12	18	23	28
Transportation/Utilities	**71**	11	35	23	25
Communications	**23**	5	1	0	0
Other (d) (f)	**(4)**	(17)	(94)	(49)	2
Total diversified commercial (b)	**404**	301	690	1,062	1,492

SUPPLEMENTAL INFORMATION

TABLE 13 IMPAIRED LOANS AND ACCEPTANCES BY ACCOUNTING CLASSIFICATION ($ millions)

As at or for the year ended October 31	1998	1997	1996	1995	1994
Gross impaired loans and acceptances, beginning of year	**787**	1,397	1,730	2,447	4,249
Additions to impaired loans and acceptances	**621**	660	959	806	1,267
Reductions in impaired loans and acceptances (a)	**(389)**	(936)	(948)	(1,073)	(1,922)
Net new additions (reductions)	**232**	(276)	11	(267)	(655)
Write-offs	**(195)**	(334)	(344)	(450)	(1,147)
Gross impaired loans and acceptances, end of year	**824**	787	1,397	1,730	2,447
Allowance for credit losses (ACL) (b), beginning of year	**1,145**	1,033	895	1,071	1,986
Increases – specific allowance	**106**	169	437	264	132
Increases – general allowance	**110**	200	0	125	50
Transfer of allowance	**0**	100	150	0	50
Write-offs (c)	**(195)**	(357)	(449)	(565)	(1,147)
Allowance for credit losses (b), end of year	**1,166**	1,145	1,033	895	1,071
Net impaired loans and acceptances (NIL), beginning of year	**(358)**	364	835	1,376	2,263
Change in gross impaired loans and acceptances	**37**	(610)	(333)	(717)	(1,802)
Change in allowance for credit losses	**(21)**	(112)	(138)	176	915
Net impaired loans and acceptances, end of year	**(342)**	(358)	364	835	1,376

TABLE 14 BALANCE SHEET SUMMARY ($ millions)

As at October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Assets										
Cash resources	**19,730**	32,245	24,187	20,317	14,659	12,081	11,288	13,607	12,502	8,581
Securities	**43,465**	41,789	36,609	33,019	26,535	23,328	22,581	17,862	12,238	9,761
Loans (net)	**129,691**	114,918	98,413	88,442	88,634	74,028	68,251	60,172	55,106	54,303
Acceptances	**6,944**	5,594	4,397	4,469	3,430	3,555	2,878	3,712	3,508	2,778
Other assets	**22,760**	13,292	6,226	5,587	4,917	3,877	4,037	3,372	4,016	3,498
Total assets	**222,590**	207,838	169,832	151,834	138,175	116,869	109,035	98,725	87,370	78,921
Liabilities and Shareholders' Equity										
Deposits	**143,983**	144,212	119,262	109,605	98,241	87,859	86,601	77,769	70,170	62,985
Other liabilities	**63,208**	50,892	39,670	32,602	31,178	20,961	15,604	14,836	11,801	10,860
Subordinated debt	**4,791**	3,831	3,314	2,595	2,218	2,363	1,666	1,570	1,473	1,329
Share capital										
Preferred	**1,958**	1,274	857	858	860	852	832	718	475	650
Common	**3,095**	3,019	2,989	3,002	3,002	2,632	2,539	2,416	2,276	2,162
Retained earnings	**5,555**	4,610	3,740	3,172	2,676	2,202	1,793	1,416	1,175	935
Total liabilities and shareholders' equity	**222,590**	207,838	169,832	151,834	138,175	116,869	109,035	98,725	87,370	78,921
Average Balances										
Loans (d)	**130,686**	113,136	94,598	87,028	77,292	73,918	66,469	58,227	53,793	53,110
Assets (d)	**227,450**	196,721	158,316	144,115	122,234	113,387	104,591	94,118	81,971	78,878

TABLE 15 UNREALIZED GAINS ON SECURITIES AND RESERVES (e) ($ millions)

As at October 31	1998	1997	1996	1995	1994
Securities					
Designated lesser-developed countries (LDC)	**22**	43	91	200	247
Associated corporations	**(190)**	118	132	na	na
High yield securities/distressed portfolio (f)	**(29)**	0	0	0	0
Other securities	**344**	293	148	156	(74)
	147	454	371	356	173
General allowance for credit losses	**885**	775	475	325	200
Fair value of past due interest bonds	**41**	57	100	95	101
Loans to designated LDC	**2**	2	4	4	(12)
	928	834	579	424	289
Total	**1,075**	1,288	950	780	462

(a) Loans and acceptances returning to performing status, sales and repayments.
(b) Excludes ACL for off-balance sheet exposure. Also excludes LDC reservations in excess of impaired loans (1998 – $98 million, 1997 – $93 million, 1996 – $108 million, 1995 – $360 million, 1994 – $425 million).
(c) Write-offs on designated LDC include losses on sales of performing assets that were charged directly against the allowance (1998 – $0, 1997 – $3 million, 1996 – $109 million, 1995 – $115 million, 1994 – $0).
(d) Daily averages for 1990 to 1998.
(e) Securities and LDC loans.
(f) Consists of the corporate debt securities portfolios accounted for on an accrual basis.
na – Not applicable

TABLE 16 RISK-WEIGHTED ASSETS ($ millions except as noted)

As at October 31	Balance	Credit risk equivalent	Risk weighting %	1998 Risk-weighted balance	1997 Risk-weighted balance
Balance sheet items					
Cash resources	**19,730**		**0 – 20**	**3,732**	6,149
Securities	**43,465**		**0 – 100**	**11,346**	12,345
Mortgages	**38,951**		**0 – 100**	**11,179**	11,821
Other loans and acceptances	**97,684**		**0 – 100**	**66,135**	60,670
Other assets	**22,760**		**0 – 100**	**8,419**	5,893
Total balance sheet items	**222,590**			**100,811**	96,878
Off-balance sheet items					
Guarantees and standby letters of credit	**14,006**	**11,964**	**0 – 100**	**9,385**	7,468
Securities lending	**12,757**	**2,645**	**0 – 100**	**567**	1,454
Documentary and commercial letters of credit	**812**	**162**	**0 – 100**	**120**	290
Commitments to extend credit:					
Original maturity of one year and under	**59,972**	**0**	**0**	**0**	0
Original maturity of over one year	**34,890**	**17,445**	**0 – 100**	**16,737**	15,959
Derivative financial instruments	**993,751**	**13,126**	**0 – 50**	**4,072**	2,299
Note issuance and revolving underwriting facilities	**63**	**31**	**0 – 50**	**6**	0
Total off-balance sheet items	**1,116,251**			**30,887**	27,470
Total risk-weighted assets – credit risk				**131,698**	124,348
Total risk-weighted assets – market risk (a)				**8,084**	NA
Total risk-weighted assets				**139,782**	124,348
Total risk-weighted assets – U.S. basis				**146,151**	128,826

TABLE 17 LIQUID ASSETS ($ millions except as noted)

As at October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Canadian Dollar Liquid Assets										
Deposits with other banks	**1,080**	3,110	2,839	3,002	2,790	1,762	1,394	1,762	3,126	2,259
Other cash resources	**745**	702	631	17	651	734	967	1,494	849	1,361
Securities	**17,216**	22,442	22,651	21,245	16,915	16,436	15,251	11,725	6,278	5,083
Total Canadian dollar liquid assets	**19,041**	26,254	26,121	24,264	20,356	18,932	17,612	14,981	10,253	8,703
U.S. Dollar and Other Currencies Liquid Assets										
Deposits with other banks	**16,334**	26,946	18,606	16,418	11,029	8,476	8,120	9,327	7,688	4,327
Other cash resources	**1,571**	1,487	2,111	880	189	1,109	807	1,024	839	634
Securities	**26,249**	19,347	13,958	11,774	9,620	6,892	7,330	6,137	5,960	4,678
Total U.S. dollar and other currencies liquid assets	**44,154**	47,780	34,675	29,072	20,838	16,477	16,257	16,488	14,487	9,639
Total liquid assets	**63,195**	74,034	60,796	53,336	41,194	35,409	33,869	31,469	24,740	18,342
Total liquid assets-to-total assets (%)	**28.4**	35.6	35.8	35.1	29.8	30.3	31.1	31.9	28.3	23.3
Pledged assets included in total liquid assets	**41,437**	36,594	31,959	24,473	24,733	NA	NA	NA	NA	NA

TABLE 18 DEPOSITS ($ millions)

As at October 31	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Canadian Dollar Deposits										
Banks	**2,511**	3,200	3,566	2,652	3,074	3,117	2,303	2,127	1,462	1,208
Businesses and governments	**23,344**	25,273	14,607	13,862	12,311	10,109	12,090	9,342	7,939	7,699
Individuals	**43,583**	44,170	44,361	43,156	40,617	39,230	37,503	35,488	33,066	30,500
Total Canadian dollar deposits	**69,438**	72,643	62,534	59,670	56,002	52,456	51,896	46,957	42,467	39,407
U.S. Dollar and Other Currencies Deposits										
Banks	**23,745**	28,072	21,174	21,357	19,227	17,690	16,519	12,200	12,126	9,236
Businesses and governments	**34,720**	29,628	22,867	20,964	16,430	12,566	13,285	13,789	10,802	9,974
Individuals	**16,080**	13,869	12,687	7,614	6,582	5,147	4,901	4,823	4,775	4,368
Total U.S. dollar and other currencies deposits	**74,545**	71,569	56,728	49,935	42,239	35,403	34,705	30,812	27,703	23,578
Total deposits	**143,983**	144,212	119,262	109,605	98,241	87,859	86,601	77,769	70,170	62,985

(a) Changes to the capital adequacy guidelines require risk-weighted balances to include market risk. Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market rates and prices. Market risk risk-weighted assets also incorporates the risk associated with on-balance sheet trading positions. Therefore, the risk-weighted on-balance sheet items are reduced by the on-balance sheet trading positions. Prior periods have not been restated for this change.

NA – Not available

SUPPLEMENTAL INFORMATION

TABLE 19 AVERAGE DEPOSITS ($ millions except as noted)

	1998		1997		1996	
	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Deposits booked in Canada						
Demand deposits – interest bearing	**3,753**	**3.98**	3,271	3.37	2,801	4.02
Demand deposits – non-interest bearing	**5,342**	**0.00**	4,705	0.00	4,126	0.00
Payable after notice	**22,855**	**1.82**	23,086	1.04	22,188	2.15
Payable on a fixed date	**53,843**	**4.97**	47,432	4.51	39,527	5.93
Total deposits booked in Canada	**85,793**	**3.78**	78,494	3.17	68,642	4.28
Deposits booked in the U.S. and other countries						
U.S. demand deposits	**13,354**	**3.70**	10,594	3.07	10,428	3.20
Other U.S. deposits payable after notice or on a fixed date	**27,211**	**7.67**	19,520	6.32	15,213	5.75
Deposits booked in other countries	**26,776**	**5.35**	23,433	4.95	18,864	5.25
Total average deposits	**153,134**	**4.74**	132,041	3.94	113,147	4.54

As at October 31, 1998, 1997 and 1996, deposits by foreign depositors in our Canadian bank offices amounted to $11,241 million, $11,242 million and $8,737 million respectively. As at October 31, 1998, 1997 and 1996, total deposits payable after notice included $12,840 million, $12,048 million and $10,446 million respectively of chequing accounts which would have been classified as demand deposits under U.S. reporting requirements. As at October 31, 1998, 1997 and 1996, total deposits payable on a fixed date included $33,738 million, $28,582 million and $24,795 million respectively of federal funds purchased and commercial paper issued. These amounts would have been classified as short-term borrowings for U.S. reporting purposes.

TABLE 20 QUARTERLY FINANCIAL DATA ($ millions)

As at or for the three months ended	Oct. 31 1998	July 31 1998	April 30 1998	Jan. 31 1998	Oct. 31 1997	July 31 1997	April 30 1997	Jan. 31 1997
Balance Sheet Data								
Total assets	**222,590**	**229,277**	**212,885**	**218,535**	207,838	198,209	200,423	185,872
Cash resources	**19,730**	**23,695**	**26,599**	**31,972**	32,245	28,252	28,996	24,032
Securities	**43,465**	**48,478**	**43,504**	**41,520**	41,789	39,410	36,985	38,081
Loans (net)	**129,691**	**134,016**	**124,540**	**125,134**	114,918	112,068	115,345	105,026
Acceptances	**6,944**	**6,470**	**5,652**	**5,825**	5,594	5,117	4,717	4,141
Other assets	**22,760**	**16,618**	**12,590**	**14,084**	13,292	13,362	14,380	14,592
Deposits	**143,983**	**152,643**	**148,480**	**151,857**	144,212	136,485	136,942	125,992
Total capital funds	**15,399**	**15,460**	**14,318**	**13,242**	12,734	12,057	12,396	11,679
Common equity	**8,650**	**8,522**	**8,139**	**7,939**	7,629	7,432	7,202	6,948
Average assets (a)	**237,643**	**226,006**	**221,975**	**223,998**	204,819	203,366	196,470	182,220
Total pledged assets	**41,437**	**43,914**	**35,718**	**38,959**	36,594	36,310	35,293	32,522
Statement of Income								
Interest, dividend and fee income								
Loans	**2,597**	**2,698**	**2,409**	**2,311**	2,110	2,108	1,962	1,878
Securities	**715**	**666**	**638**	**576**	581	522	517	524
Deposits with banks	**303**	**333**	**423**	**452**	378	360	317	277
Total interest income	**3,615**	**3,697**	**3,470**	**3,339**	3,069	2,990	2,796	2,679
Interest expense								
Deposits	**1,881**	**1,870**	**1,788**	**1,715**	1,377	1,376	1,261	1,194
Subordinated debt	**88**	**91**	**77**	**75**	72	74	75	72
Other liabilities	**698**	**689**	**601**	**524**	557	514	456	429
Total interest expense	**2,667**	**2,650**	**2,466**	**2,314**	2,006	1,964	1,792	1,695
Net interest income	**948**	**1,047**	**1,004**	**1,025**	1,063	1,026	1,004	984
Provision for credit losses (PCL)	**(5)**	**45**	**45**	**45**	69	68	69	69
Net interest income after PCL	**953**	**1,002**	**959**	**980**	994	958	935	915
Other income	**632**	**834**	**875**	**777**	771	811	702	697
Non-interest expense	**1,230**	**1,222**	**1,207**	**1,174**	1,269	1,147	1,117	1,080
Income before provision for income taxes	**355**	**614**	**627**	**583**	496	622	520	532
Provision for income taxes	**117**	**227**	**242**	**218**	192	244	200	204
Income before non-controlling interest in subsidiary	**238**	**387**	**385**	**365**	304	378	320	328
Non-controlling interest in subsidiary	**4**	**9**	**8**	**4**	7	6	6	6
Net income	**234**	**378**	**377**	**361**	297	372	314	322
Taxable equivalent adjustment (b)	**36**	**32**	**31**	**29**	28	28	28	25
Total revenue (TEB)	**1,616**	**1,913**	**1,910**	**1,831**	1,862	1,865	1,734	1,706

(a) Daily averages

(b) Refer to the Glossary on page 92 for a definition of the taxable equivalent basis (TEB) adjustment.

TABLE 21 QUARTERLY FINANCIAL MEASURES

As at or for the three months ended	Oct. 31 1998	July 31 1998	April 30 1998	Jan. 31 1998	Oct. 31 1997	July 31 1997	April 30 1997	Jan. 31 1997
Information per Common Share ($)								
Dividends declared	0.44	0.44	0.44	0.44	0.44	0.40	0.40	0.40
Earnings								
Basic	0.77	1.32	1.34	1.29	1.05	1.34	1.13	1.17
Cash EPS (a)	0.82	1.40	1.40	1.36	1.12	1.41	1.20	1.24
Fully diluted	0.76	1.31	1.32	1.27	1.04	1.31	1.11	1.16
Book value	32.71	32.41	31.01	30.34	29.18	28.54	27.66	26.71
Market price								
High	73.750	84.400	87.000	74.000	61.600	58.200	55.800	46.750
Low	51.750	73.600	67.600	57.250	51.900	50.500	45.400	39.050
Close	63.100	73.650	78.000	67.100	60.850	57.450	50.700	46.600
Common stock information								
Number of common shares outstanding (thousands):								
as at	264,433	262,925	262,475	261,647	261,436	260,439	260,361	260,162
average – basic	263,778	262,742	261,964	261,541	260,916	260,415	260,253	260,050
– fully diluted	269,331	269,155	268,961	268,847	268,801	268,809	268,765	267,621
Price-to-earnings ratio (%)	13.4	14.7	15.5	14.0	13.0	12.2	11.4	10.8
Market-to-book value ratio (%)	1.93	2.27	2.52	2.21	2.09	2.01	1.83	1.74
Number of shareholders	51,387	51,781	52,489	53,336	53,651	54,238	54,746	55,261
Primary Financial Measures (%)								
Five-year return on common shareholders' investment (b)	23.3	27.0	30.6	30.2	26.1	24.3	23.7	21.0
Return on common shareholders' equity (c)	9.4	16.7	18.0	17.3	14.5	19.1	17.2	17.7
Fully diluted earnings per share growth (d)	(26.9)	0.0	18.9	9.5	0.0	22.4	13.3	11.5
Revenue growth	(13.2)	2.6	10.1	7.3	15.7	20.9	12.9	10.8
Expense-to-revenue ratio (e)	76.1	63.8	63.2	64.1	68.2	61.5	64.4	63.3
Provision for credit losses as a % of average loans and acceptances (f)	0.09	0.13	0.14	0.14	0.22	0.22	0.23	0.25
Gross impaired loans and acceptances as a % of equity and allowance for credit losses (g)	6.66	5.67	6.11	6.26	7.65	8.86	11.46	13.33
Tier 1 ratio* (h)	7.26	7.32	7.16	6.67	6.80	6.96	6.71	6.58
Cash and securities-to-total assets (i)	28.4	31.5	32.9	33.6	35.6	34.1	32.9	33.4
Credit rating (j)	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Other Financial Ratios (%)								
Return on average total equity (k)	8.8	14.8	16.2	15.9	13.4	17.3	16.0	16.6
Return on common shareholders' investment (l)	6.4	23.9	31.3	13.5	55.0	46.3	29.3	19.1
Return on average assets	0.39	0.66	0.70	0.64	0.58	0.72	0.66	0.70
Return on average assets available to common shareholders	0.34	0.61	0.65	0.60	0.53	0.68	0.62	0.66
Net income growth	(21.2)	1.8	20.0	12.0	2.3	23.7	11.9	8.8
Cash ROE (m)	10.9	19.1	20.6	20.0	16.9	22.1	20.3	20.9
Expense growth	(3.2)	6.5	8.0	8.7	17.9	17.5	16.0	15.8
Net impaired loans as a % of net loans and acceptances	(0.25)	(0.36)	(0.36)	(0.38)	(0.30)	(0.22)	0.00	0.13
Total capital ratio*	10.38	10.50	10.10	9.35	9.66	9.34	9.05	9.07
Equity-to-assets ratio	5.0	4.8	4.9	4.3	4.4	4.5	4.3	4.3

*As at April 30, 1998, January 31, 1998 and July 31, 1997, the capital ratios reflect the inclusion of $250 million Class B preferred shares issued May 15, 1998, $400 million Class B preferred shares issued February 26, 1998 and $450 million Series A Medium Term Notes issued on August 25, 1997 respectively. Excluding these issues, the Tier 1 ratios as at April 30, 1998, January 31, 1998 and July 31, 1997 would be 6.97%, 6.38% and 6.96% respectively. The total capital ratios would be 9.91%, 9.06% and 8.96% respectively.

(a) Cash EPS is earnings per share as reported adjusted for the after-tax impact on earnings of non-cash goodwill and other valuation intangibles.
(b) Five-year compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.
(c) Annualized quarterly net income less preferred dividends divided by average common shareholders' equity (which includes common share capital plus retained earnings).
(d) Percentage change in fully diluted earnings per share for the quarter over the corresponding quarter of the previous year.
(e) Non-interest expense divided by total revenue (TEB).
(f) Annual provision for credit losses divided by average net loans, acceptances and loan substitutes.
(g) Gross impaired loans divided by total equity and allowance for credit losses.
(h) Tier 1 capital divided by risk-weighted assets as defined by the Superintendent of Financial Institutions Canada.
(i) Cash and securities divided by total assets (cash and securities includes pledged assets in Table 20).
(j) Composite of Moody's and Standard & Poor's debt ratings.
(k) Annualized quarterly net income divided by average total equity.
(l) Annual compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.
(m) Cash ROE is return on common shareholders' equity as reported adjusted for the after-tax impact on earnings and common shareholders' equity of non-cash goodwill and other valuation intangibles.

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for the interim periods, contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and such ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

CONSOLIDATED FINANCIAL STATEMENTS

This section of the Annual Report presents our Consolidated Financial Statements for the year ended October 31, 1998, Statement of Management's Responsibility for Financial Information and Shareholders' Auditors' Report.

The audited Consolidated Financial Statements present our financial condition as at October 31, 1998 and 1997 and results of our operations for the years ended October 31, 1998, 1997 and 1996. The accompanying Notes to Consolidated Financial Statements provide further financial detail and include the significant accounting policies underlying the financial information reported.

CONSOLIDATED BALANCE SHEET

As at October 31 (Canadian $ in millions)	1998	1997
ASSETS		
Cash Resources (note 3)	$ 19,730	$ 32,245
Securities (notes 4 & 6)		
Investment (market value $24,460 in 1998 and $19,023 in 1997)	24,313	18,569
Trading	18,791	22,857
Loan substitutes	361	363
	43,465	41,789
Loans (notes 5, 6 & 7)		
Residential mortgages	35,847	35,555
Consumer instalment and other personal loans	16,095	14,682
Credit card loans	797	1,912
Loans to businesses and governments	50,598	45,397
Securities purchased under resale agreements	27,520	18,517
	130,857	116,063
Allowance for credit losses	(1,166)	(1,145)
	129,691	114,918
Other		
Customers' liability under acceptances	6,944	5,594
Premises and equipment (note 8)	2,311	2,058
Other assets (note 9)	20,449	11,234
	29,704	18,886
Total Assets	$ 222,590	$ 207,838
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (note 11)		
Banks	$ 26,256	$ 31,272
Businesses and governments	58,064	54,901
Individuals	59,663	58,039
	143,983	144,212
Other Liabilities (note 12)		
Acceptances	6,944	5,594
Securities sold but not yet purchased	7,843	10,304
Securities sold under repurchase agreements	29,758	21,389
Other	18,663	13,605
	63,208	50,892
Subordinated Debt (note 13)	4,791	3,831
Shareholders' Equity		
Share capital (note 14)	See p71 5,053	4,293
Retained earnings	5,555	4,610
	10,608	8,903
Total Liabilities and Shareholders' Equity	$ 222,590	$ 207,838

The accompanying notes to consolidated financial statements are an integral part of this statement.

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended October 31 (Canadian $ in millions except per share amounts)	1998	1997	1996
Interest, Dividend and Fee Income			
Loans	$ 10,015	$ 8,058	$ 7,376
Securities (note 4)	2,595	2,144	2,124
Deposits with banks	1,511	1,332	984
	14,121	11,534	10,484
Interest Expense			
Deposits	7,254	5,208	5,134
Subordinated debt	331	293	246
Other liabilities	2,512	1,956	1,501
	10,097	7,457	6,881
Net Interest Income	4,024	4,077	3,603
Provision for credit losses	130	275	225
Net Interest Income After Provision for Credit Losses	3,894	3,802	3,378
Other Income			
Deposit and payment service charges	558	508	473
Lending fees	290	240	194
Capital market fees	869	919	760
Card services	196	251	234
Investment management and custodial fees	407	299	221
Mutual fund revenues	199	155	87
Trading revenues	40	276	277
Securitization revenues (note 7)	158	32	–
Other fees and commissions	401	301	270
	3,118	2,981	2,516
Net Interest and Other Income	7,012	6,783	5,894
Non-Interest Expense			
Salaries and employee benefits	2,574	2,535	2,210
Premises and equipment	972	916	727
Communications	266	246	219
Other expenses	949	842	739
	4,761	4,539	3,895
Goodwill and other valuation intangibles (note 9)	72	74	54
Total non-interest expense	4,833	4,613	3,949
Income Before Provision for Income Taxes	2,179	2,170	1,945
Provision for income taxes (note 15)	804	840	757
Income Before Non-Controlling Interest in Subsidiaries	1,375	1,330	1,188
Non-controlling interest	25	25	20
Net Income	$ 1,350	$ 1,305	$ 1,168
Preferred dividends	$ 112	$ 83	$ 69
Net income available to common shareholders	$ 1,238	$ 1,222	$ 1,099
Average common shares outstanding (in thousands)	262,511	260,410	261,233
Net Income Per Common Share (note 16)			
Basic	$ 4.72	$ 4.69	$ 4.21
Fully diluted	4.66	4.62	4.13
Dividends Per Common Share	1.76	1.64	1.48

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended October 31 (Canadian $ in millions)				**1998**	1997	1996
Preferred Shares (note 14)						
Balance at beginning of year				**$ 1,274**	$ 857	$ 858
Proceeds from the issue of preferred shares				**650**	400	–
Translation adjustment on shares issued in a foreign currency				**34**	17	(1)
Balance at End of Year				**1,958**	1,274	857
	Number of Shares					
	1998	1997	1996			
Common Shares (note 14)						
Balance at beginning of year	**261,436,344**	259,937,006	263,684,556	**3,019**	2,989	3,002
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	**399,155**	–	–	**29**	–	–
Issued under the Stock Option Plan	**269,600**	290,000	122,100	**9**	8	3
Issued on the exchange of shares of Bank of Montreal Securities Canada Limited	**2,328,099**	1,209,338	1,130,350	**38**	22	19
Purchased for cancellation	**–**	–	(5,000,000)	**–**	–	(57)
Stock options granted on acquisition of an interest in an associated corporation	**–**	–	–	**–**	–	22
Balance at End of Year	**264,433,198**	261,436,344	259,937,006	**3,095**	3,019	2,989
Retained Earnings						
Balance at beginning of year				**4,610**	3,740	3,172
Net income				**1,350**	1,305	1,168
Dividends – Preferred shares				**(112)**	(83)	(69)
– Common shares				**(463)**	(427)	(386)
Common shares purchased for cancellation				**–**	–	(105)
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax				**178**	81	(40)
Share issue expense, net of applicable income tax				**(8)**	(6)	–
Balance at End of Year				**5,555**	4,610	3,740
Total Shareholders' Equity				**$ 10,608**	$ 8,903	$ 7,586

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CASH FLOW

For the Year Ended October 31 (Canadian $ in millions except per share amounts)	**1998**	1997	1996
Cash Flows from Operating Activities			
Net income	**$ 1,350**	$ 1,305	$ 1,168
Adjustments to determine net cash flows			
Provision for credit losses	**130**	275	225
Amortization of premises and equipment	**318**	348	234
Amortization of goodwill and intangibles	**83**	85	66
Future income tax expense	**16**	(116)	80
Net (gain) on sale of investment securities	**(97)**	(52)	(71)
Change in accrued interest			
(Increase) in interest receivable	**(387)**	(318)	(48)
Increase (decrease) in interest payable	**137**	(66)	(66)
Net increase (decrease) in deferred loan fees	**50**	(1)	7
Net (increase) decrease in unrealized gains and amounts receivable on derivative contracts	**(5,897)**	(6,569)	95
Net increase in unrealized losses and amounts payable on derivative contracts	**5,687**	6,446	–
Net (increase) decrease in trading securities	**4,066**	(3,813)	(5,794)
Net increase (decrease) in current income taxes payable	**(391)**	71	(200)
Changes in other items and accruals, net	**(2,119)**	669	(500)
Net Cash Provided by (Used in) Operating Activities	**2,946**	(1,736)	(4,804)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	**(229)**	24,950	9,657
Net increase (decrease) in securities sold but not yet purchased	**(2,461)**	(3,412)	4,527
Net increase in securities sold under repurchase agreements	**8,369**	5,866	4,052
Net increase (decrease) in liabilities of subsidiaries	**(1,166)**	570	(974)
Proceeds from issuance of subordinated debt	**1,090**	1,000	725
Repayment of subordinated debt	**(235)**	(535)	–
Foreign currency translation of subordinated debt	**105**	52	(6)
Proceeds from issuance of preferred shares	**650**	400	–
Foreign currency translation of preferred shares	**34**	17	(1)
Proceeds from issuance of common shares	**76**	30	22
Stock options granted on acquisition of an interest in an associated corporation	**–**	–	22
Common shares purchased for cancellation	**–**	–	(162)
Dividends paid	**(575)**	(510)	(455)
Net Cash Provided by Financing Activities	**5,658**	28,428	17,407
Cash Flows Used in Investing Activities			
Net increase (decrease) in interest bearing deposits with banks	**(12,826)**	8,753	2,435
Purchases of investment securities	**55,474**	45,803	86,264
Maturities of investment securities	**(21,746)**	(18,310)	(20,738)
Proceeds from sales of investment securities	**(28,081)**	(26,161)	(68,316)
Net increase in loans and loan substitute securities	**15,548**	14,327	6,712
Proceeds from securitization of assets	**(9,650)**	(2,000)	–
Net increase in securities purchased under resale agreements	**9,003**	4,436	3,576
Premises and equipment – net purchases	**571**	539	401
Goodwill and valuation intangibles acquired	**–**	–	411
Acquisition of an interest in an associated corporation	**–**	–	423
Net Cash Used in Investing Activities	**8,293**	27,387	11,168
Net Increase (Decrease) in Cash and Cash Equivalents	**311**	(695)	1,435
Cash and Cash Equivalents at Beginning of Year	**2,651**	3,346	1,911
Cash and Cash Equivalents at End of Year	**$ 2,962**	$ 2,651	$ 3,346
Represented by:			
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 1,478**	$ 1,681	$ 1,698
Cheques and other items in transit, net	**1,484**	970	1,648
	$ 2,962	$ 2,651	$ 3,346
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	**$ 9,960**	$ 7,523	$ 6,947
Amount of income taxes paid in the year	**942**	793	887
Cash Income Per Common Share (note 16)	**4.98**	4.97	4.44

The accompanying notes to consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(CANADIAN $ IN MILLIONS, UNLESS OTHERWISE STATED)

NOTE 1 BASIS OF PRESENTATION

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

In addition, our consolidated financial statements comply with the disclosure requirements of United States generally accepted accounting principles. Differences in consolidated total assets and liabilities or net income arising from applying United States generally accepted accounting principles, if any, are described in note 23.

Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries, joint ventures and associated corporations. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares. Joint ventures are those where we control a corporation together with various partners through our proportionate ownership of the voting shares. The revenues, expenses, assets and liabilities of our subsidiaries and our proportionate share of such amounts in joint ventures are included in our consolidated financial statements.

In some instances, we exert significant influence, but not control, over a corporation. Our investment in these associated corporations is recorded as a component of securities in our Consolidated Balance Sheet. Our proportionate share of the net income or loss is recognized in our interest, dividend and fee income in our Consolidated Statement of Income. The amount is net of adjustments for goodwill that arose at the time we acquired our interest in the associated corporation.

All significant intercompany transactions and balances are eliminated.

Trust assets under administration are maintained separately from our assets and are not included in our Consolidated Balance Sheet.

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets, liabilities and shareholders' equity related to foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The income and expense amounts related to these transactions are translated using the average exchange rate for the year. The realized and unrealized gains and losses arising from these translations are included in other income in our Consolidated Statement of Income.

We have various investments in foreign operations which are denominated in foreign currencies. Unrealized gains and losses arising from translating investments to Canadian dollars are included in shareholders' equity in our Consolidated Balance Sheet unless the operation is located in a country experiencing extremely high inflation over a prolonged period of time, then the unrealized gains and losses are included in other income in our Consolidated Statement of Income. All realized translation gains and losses related to our foreign operations are recognized in other income.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. The gain or loss on the translation of the hedge contract is offset against the realized or unrealized gain or loss on the translation of the item being hedged and is included in other income or retained earnings.

Use of Estimates

In preparing our consolidated financial statements we must make estimates and assumptions, mainly considering values, which affect reported amounts of assets, liabilities, net income and related disclosures.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption.

Changes in Accounting Policies

The effects of new accounting policies issued by standard setters are described in notes 15 and 23.

NOTE 2 MERGER WITH ROYAL BANK OF CANADA

On January 23, 1998 we announced a definitive agreement, subject to regulatory and shareholder approval, to merge with Royal Bank of Canada. This transaction is a merger of equals and will be accounted for using the pooling of interests method. Under this method the assets and liabilities of each bank will be added together at their carrying value without any fair value adjustments, and as such, there will be no resulting goodwill. All financial statements presented for prior years will be restated to reflect the financial condition and performance of the banks as if they had always been combined.

Under the terms of the agreement, shareholders of Royal Bank of Canada will receive one common share of the merged bank for each common share held. Bank of Montreal shareholders will receive 0.97 of a common share of the merged bank for each common share held.

A Joint Management Proxy Circular describing the proposed merger will be mailed to all shareholders of record at a later date. The expected date of the merger is subject to the timing of approvals under the Bank Act and the Competition Act in Canada, as well as various other Canadian, U.S. and international approvals.

NOTE 3 CASH RESOURCES

Deposits with Banks

Deposits with banks are recorded at cost and include acceptances which we have purchased that have been issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Cheques and Other Items in Transit, Net

Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

	1998	1997
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 1,478**	$ 1,681
Interest bearing deposits with banks	**16,768**	29,594
Cheques and other items in transit, net	**1,484**	970
Total	**$ 19,730**	$ 32,245

We have a number of banking subsidiaries whose cash is available for use in their own business and may not be used by other related corporations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 SECURITIES

Securities are divided into three components, each with a different purpose and accounting treatment. The three types of securities we hold are as follows:

- **Investment securities are comprised of equity and debt securities that we purchase with the intention of holding until maturity or until market conditions, such as a change in interest rates, provide us with a better investment opportunity. Equity securities are recorded at cost and debt securities at amortized cost. Securities are written down to their fair value when we identify a long-term permanent decline in value. Any write-downs or gains and losses on disposal of our investment securities are recorded in the year they occur and are included in our Consolidated Statement of Income as either an increase or decrease in other income. Gains and losses on disposal are calculated using the average cost of the securities sold. Investment securities of designated countries are accounted for in accordance with our accounting policy for loans which is described in note 5.**
- **Trading securities are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities in our Consolidated Statement of Income in other income.**
- **Loan substitute securities are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would otherwise be applicable on a conventional loan. We record these securities on the same basis as a loan as described in note 5.**

	Term to maturity										1998		1997
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total book value		Total book value
Investment Securities		Yield %		Yield %		Yield %		Yield %		Yield %		Yield %	
Issued or guaranteed by:													
Canadian federal government	$ 1,536	4.83	$ 192	4.88	$ 24	4.85	$ 96	4.88	$ –	–	$ 1,848	4.84	$ 2,897
Canadian provincial and municipal governments	120	5.59	150	5.21	32	5.09	–	–	–	–	302	5.35	304
U.S. federal government	1,015	5.20	1,373	5.69	6	6.37	594	5.82	–	–	2,988	5.55	2,814
U.S. states, municipalities and agencies	3,154	5.75	658	6.86	1,013	6.34	502	7.03	302	7.51	5,629	6.19	3,711
Designated countries	–	–	–	–	–	–	–	–	42	22.95	42	22.95	49
Other governments	6	3.66	12	5.88	9	6.05	3	6.15	147	8.33	177	7.85	149
Mortgage-backed securities and collateralized mortgage obligations	–	–	250	6.64	–	–	–	–	2,602	6.68	2,852	6.68	2,276
Corporate debt	738	5.64	718	5.97	918	7.14	4,363	6.95	1,464	8.63	8,201	7.07	4,674
Corporate equity													
Associated corporations	–	–	–	–	–	–	–	–	709	–	709	–	537
Other	128	10.33	282	9.34	510	9.25	276	7.99	369	1.56	1,565	7.32	1,158
Total investment securities	6,697	5.53	3,635	6.24	2,512	7.19	5,834	6.86	5,635	6.22	24,313	6.29	18,569
Trading Securities													
Issued or guaranteed by:													
Canadian federal government	1,113		740		586		1,012		840		4,291		11,599
Canadian provincial and municipal governments	274		378		122		267		504		1,545		1,427
U.S. federal government	945		951		1,712		275		465		4,348		3,651
U.S. states, municipalities and agencies	–		–		–		97		–		97		208
All other	6,108		479		234		647		1,042		8,510		5,972
Total trading securities	8,440		2,548		2,654		2,298		2,851		18,791		22,857
Loan Substitute Securities	251		110		–		–		–		361		363
Total Securities	$ 15,388		$ 6,293		$ 5,166		$ 8,132		$ 8,486		$ 43,465		$ 41,789

Yields in the table above are calculated using the book value of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts and any country risk provision associated with a particular security. Tax effects are not taken into consideration.

Securities of designated countries include any securities that we receive as part of a debt restructuring by a foreign country. They are recorded net of any country risk allowance (note 6) that we have allocated to these securities.

The term to maturity included in the table above is based on the contractual maturity date of the security. Securities with no maturity date are included in the over 10 years category.

We did not own any securities issued by a single non-government entity where the book value, as at year end or the prior year end, was greater than 10% of our shareholders' equity.

All of our investment securities, other than our investment in our associated corporations, are available for sale.

Interest income and gains and losses from securities are:

	1998	1997	1996
Reported in:			
Interest, dividend and fee income			
Investment securities	$ 1,255	$ 1,118	$ 1,165
Associated corporations	3	89	55
Trading securities	1,337	937	904
	$ 2,595	$ 2,144	$ 2,124
Other Income			
Investment securities			
Gross realized gains	$ 121	$ 68	$ 85
Gross realized losses	(24)	(16)	(14)
Net realized gains	$ 97	$ 52	$ 71
Trading securities, net realized and unrealized gains (losses)	$ (93)	$ 169	$ 121

Interest expense is not included in the amounts shown above.

Unrealized Gains and Losses			1998					1997
	Book value	**Gross unrealized gains**	**Gross unrealized losses**	**Market value**	Book value	Gross unrealized gains	Gross unrealized losses	Market value
Investment Securities								
Issued or guaranteed by:								
Canadian federal government	$ 1,848	$ 27	$ –	$ 1,875	$ 2,897	$ 42	$ 1	$ 2,938
Canadian provincial and municipal governments	302	22	–	324	304	30	–	334
U.S. federal government	2,988	87	–	3,075	2,814	3	14	2,803
U.S. states, municipalities and agencies	5,629	47	–	5,676	3,711	31	1	3,741
Designated countries	42	22	–	64	49	43	–	92
Other governments	177	–	2	175	149	18	–	167
Mortgage-backed securities and collateralized mortgage obligations	2,852	50	–	2,902	2,276	34	1	2,309
Corporate debt	8,201	160	97	8,264	4,674	96	6	4,764
Corporate equity								
Associated corporations	709	–	190	519	537	118	–	655
Other	1,565	33	12	1,586	1,158	64	2	1,220
Total	$ 24,313	$ 448	$ 301	$ 24,460	$ 18,569	$ 479	$ 25	$ 19,023

The market value of a security is based on the quoted market price at each year end. This price may not necessarily be what we would receive if we were to sell the security. We use a variety of valuation techniques to estimate the market value when there is no readily available quoted market price for a particular security.

NOTE 5 LOANS

Loans

All loans are recorded at cost net of any unearned interest, unamortized discounts and allowance for credit losses. Interest income is recorded on an accrual basis except for impaired loans, the treatment of which is described below. From time to time we will restructure a loan due to the poor financial condition of the borrower. Interest on these restructured loans is recorded on an accrual basis unless we consider the loan to be impaired.

Securities purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased, back to the original sellers, on a specified date at a specified price. We account for these instruments as loans.

Loan Fees

Loan fees are received for a variety of reasons. The accounting treatment for these fees varies depending on the transaction. The unrecognized portion of all loan fees is included in other liabilities in our Consolidated Balance Sheet. Loan syndication fees are included in other income when we complete the syndication. Loan origination, restructuring, renegotiation and commitment fees are recognized as interest income over the term of the loan unless we believe that the loan commitment we provide to our customer will not be used. In this case, we recognize the loan commitment fee over the commitment period.

Impaired Loans

We classify loans, except credit card and consumer instalment loans, as impaired when:

- we are unlikely to collect the principal or interest owed to us on a timely basis; or
- the principal or interest payments are 90 days past due unless we are actively trying to collect the loan and it is fully secured; or
- fully secured loans become 180 days past due; or
- we consider it prudent or appropriate to cease accruing interest on the loan.

Credit card loans are immediately classified as impaired and written off when principal or interest payments become 180 days past due. Consumer instalment loans are immediately classified as impaired when the principal or interest payments are 90 days past due and are written off when they are past due by one year.

We do not accrue interest when we classify a loan as impaired and any interest income that is accrued and unpaid is reversed to interest income.

Any payments received on a loan that has been classified as impaired are recorded first to recover any previous write-offs or allowances before income is recognized. Any payments which we receive on impaired credit card loans, consumer instalment loans and loans to designated countries are applied first to the outstanding interest and then to the remaining principal amount.

Any property or other assets that we receive from our borrowers to satisfy their loan commitments to us are classified as impaired and recorded at the lower of the amount we expect to recover and the outstanding balance of the loan at the time the customer transfers the asset to us.

A loan will be reclassified back to performing status if new circumstances arise that cause us to believe that our principal and interest will be recovered in a timely manner from the borrower.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets out the outstanding amounts that we have classified as impaired:

	Canada		United States		Mexico		Other countries		Total	
	1998	1997	**1998**	1997	**1998**	1997	**1998**	1997	**1998**	1997
Residential mortgages	**$ 109**	$ 103	**$ –**	$ –	**$ –**	$ –	**$ –**	$ –	**$ 109**	$ 103
Consumer instalment and other personal loans	**33**	24	**5**	6	**–**	–	**–**	–	**38**	30
Credit card loans	**5**	3	**–**	–	**–**	–	**–**	–	**5**	3
Loans to businesses and governments	**361**	388	**221**	248	**–**	–	**90**	5	**672**	641
Securities purchased under resale agreements	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Securities of designated countries	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Loan substitute securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Acceptances	**–**	10	**–**	–	**–**	–	**–**	–	**–**	10
Total impaired loans and acceptances	**508**	528	**226**	254	**–**	–	**90**	5	**824**	787
Allowance for credit losses	**(868)**	(894)	**(268)**	(246)	**–**	–	**(30)**	(5)	**(1,166)**	(1,145)
Total net impaired loans and acceptances	**$ (360)**	$ (366)	**$ (42)**	$ 8	**$ –**	$ –	**$ 60**	$ –	**$ (342)**	$ (358)
Average net impaired loans and acceptances	**$ (350)**	$ (129)	**$ (45)**	$ 143	**$ –**	$ –	**$ 20**	$ –	**$ (375)**	$ 14
Average gross impaired loans and acceptances	**$ 543**	$ 688	**$ 200**	$ 414	**$ –**	$ –	**$ 34**	$ 6	**$ 777**	$ 1,108

	Canada			United States			Mexico			Other countries			Total		
	1998	1997	1996	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Gross interest income received on impaired loans and acceptances	**$ 23**	$ 54	$ 42	**$ 41**	$ 90	$ 20	**$ –**	$ –	$ –	**$ 15**	$ 60	$ 35	**$ 79**	$ 204	$ 97
Interest income received on impaired loans and acceptances, net of interest reversals	**$ 5**	$ 39	$ 25	**$ 40**	$ 90	$ 19	**$ –**	$ –	$ –	**$ 15**	$ 60	$ 35	**$ 60**	$ 189	$ 79

Included in impaired loans is other real estate owned and securities received from customers in satisfaction of their loans totalling $48 as at October 31, 1998 and $55 as at October 31, 1997.

Designated countries are determined by the Superintendent of Financial Institutions Canada as having difficulty in servicing all or part of their external debt to commercial banks. We did not have any net impaired loans to designated countries as at October 31, 1998 or October 31, 1997.

Approximately 4% of the gross exposure to designated countries was classified as impaired as at October 31, 1998 and 2% as at October 31, 1997.

The allowance for credit losses does not include $98 as at October 31, 1998 and $93 as at October 31, 1997 of country risk allowance that is in excess of gross impaired loans to designated countries.

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $44 as at October 31, 1998 and $54 as at October 31, 1997.

During the current year, we did not restructure any loans classified as performing. In the prior year, we restructured $1 of loans classified as performing. We did not write off any restructured loans in the current year, and we wrote off $2 of restructured loans in the prior year.

The interest income that we would have recognized over the past three years if we had not classified loans as impaired is:

	1998	1997	1996
Interest income that would have been accrued at original contract rates	**$ 51**	$ 68	$ 128
Less: amount recognized as interest income	**(8)**	(43)	(8)
Total	**$ 43**	$ 25	$ 120

NOTE 6 ALLOWANCE FOR CREDIT LOSSES

The provision for credit losses is recorded in our Consolidated Statement of Income. It is based on statistical analysis and management judgement and represents the appropriate expense given the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established.

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level which we consider to be adequate to absorb potential credit losses in our on- and off-balance sheet portfolios.

We maintain the following allowances:

Specific Allowances

These allowances are recorded for specific loans to reduce their book value to the amount we expect to recover from the loans. We review our loans and acceptances, other than consumer instalment and credit card loans, at least quarterly, to assess whether the loan should be classified as impaired and an allowance or write-off recorded. Our review process of problem loans is conducted by our account managers who assess the ultimate collectibility and estimated recoveries on a specific loan based on all events and conditions that the manager believes are relevant to the condition of the loan. This assessment is then reviewed and approved by an independent credit officer. Significant specific allowances and the aggregate allowance for credit losses are reviewed by officers in the Risk Management Group.

We use a variety of methods to determine the amount we expect to recover from impaired loans including the discounted value of estimated future cash flows, observable market values or the fair value of the underlying security discounted to reflect when we expect to sell the security. The value of any collateral is also considered in establishing an allowance. Collateral can vary by type of loan and may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

General Allowance

This allowance is recorded for loans, including those of associated corporations, joint ventures and securitization vehicles, recognizing that not all of the impairment in the loan portfolio can be specifically identified on a loan by loan basis. The general allowance is based upon statistical analysis of past performance, the level of allowance already in place and management's judgement. The general allowance would normally increase in a strong business/economic cycle and would be drawn down during a weak business/economic cycle when specific allowances would normally increase in relation to our exposures.

The value of loans covered by the general allowance totalled $149,710 as at October 31, 1998 and $123,931 as at October 31, 1997.

Country Risk Allowance

This allowance is recorded for loans to and securities of countries identified by the Superintendent of Financial Institutions Canada that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. These loans and securities are reviewed regularly by management within the Portfolio and Risk Management Group to assess the adequacy of the allowance based on the current and expected political and economic conditions in the respective countries.

The following table sets out our allocation of the allowance for credit losses:

	Specific allowances			General allowance			Country risk allowance			Total		
	1998	1997	1996	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Residential mortgages	**$ 4**	$ 9	$ 9	**$ –**	$ –	$ –	**$ –**	$ –	$ –	**$ 4**	$ 9	$ 9
Consumer instalment and other personal loans	**9**	11	15	**–**	–	–	**–**	–	–	**9**	11	15
Credit card loans	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Loans to businesses and governments	**262**	345	526	**–**	–	–	**6**	5	8	**268**	350	534
Securities purchased under resale agreements	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Unallocated	**–**	–	–	**885**	775	475	**–**	–	–	**885**	775	475
	275	365	550	**885**	775	475	**6**	5	8	**1,166**	1,145	1,033
Securities of designated countries	**–**	–	–	**–**	–	–	**98**	93	108	**98**	93	108
Loan substitute securities	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Acceptances	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
	275	365	550	**885**	775	475	**104**	98	116	**1,264**	1,238	1,141
Off-balance sheet items	**8**	1	2	**–**	–	–	**–**	–	–	**8**	1	2
Total	**$ 283**	$ 366	$ 552	**$ 885**	$ 775	$ 475	**$ 104**	$ 98	$ 116	**$ 1,272**	$ 1,239	$ 1,143

Changes in the allowance for credit losses are:

	Specific allowances			General allowance			Country risk allowance			Total		
	1998	1997	1996	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Balance at beginning of year	**$ 366**	$ 552	$ 563	**$ 775**	$ 475	$ 325	**$ 98**	$ 116	$ 367	**$ 1,239**	$ 1,143	$ 1,255
Provision for credit losses	**20**	75	225	**110**	200	–	**–**	–	–	**130**	275	225
Transfer of allowance	**–**	(100)	–	**–**	100	150	**–**	–	(150)	**–**	–	–
Recoveries	**64**	158	103	**–**	–	–	**–**	–	–	**64**	158	103
Write-offs	**(192)**	(334)	(344)	**–**	–	–	**(3)**	(23)	(105)	**(195)**	(357)	(449)
Other, including foreign exchange rate changes	**25**	15	5	**–**	–	–	**9**	5	4	**34**	20	9
Balance at end of year	**$ 283**	$ 366	$ 552	**$ 885**	$ 775	$ 475	**$ 104**	$ 98	$ 116	**$ 1,272**	$ 1,239	$ 1,143

NOTE 7 ASSET SECURITIZATION

Periodically we securitize portions of our assets by selling loans to special-purpose vehicles or trusts of which we are not the beneficiary. We account for these transactions as sales when the significant risks and rewards of the ownership of the loans have been transferred and we can estimate the amount of cash to be received.

We record these sales based upon the market value of the loans sold.

The purchase and sale contracts provide for the payment to us of the proceeds of sale when the sum of interest and fees collected from customers exceeds the yield paid to investors on the assets, credit losses and other costs. We record our entitlement to such proceeds in income when the amount is legally payable by the special-purpose vehicle or trust. The fees which we receive for continuing to service the loans sold are recorded in income using the accrual method.

The outstanding amounts of loans sold to special-purpose vehicles or trusts are:

	1998	1997
Securitized credit card receivables	**$ 2,500**	$ 2,000
Securitized mortgage loans	**5,061**	–
Securitized corporate loans	**4,089**	–

The impact of securitization on our Consolidated Statement of Income is:

	1998	1997	1996
Net interest income	**$ (128)**	$ (17)	$ –
Other income – card services	**(79)**	(14)	–
– securitization revenues	**158**	32	–
– other fees and commissions	**(11)**	(2)	–
Provision for credit losses	**50**	–	–
Income before provision for income taxes	**$ (10)**	$ (1)	$ –

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 PREMISES AND EQUIPMENT

We record all premises and equipment at cost. Buildings, computer and other equipment, and leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset. The maximum estimated useful lives we use to amortize our assets are:

- **Buildings** — **up to 40 years**
- **Computer and other equipment** — **up to 10 years**
- **Leasehold improvements** — **up to 15 years**

For the years ended October 31, 1998, 1997 and 1996 amortization expense amounted to $318 in 1998, $348 in 1997 and $234 in 1996. Included in land and buildings are the costs for Bank-owned branches and other properties, located in Canada, the United States and other countries, of which we owned 530 as at October 31, 1998 and 558 as at October 31, 1997.

	1998	1997
Land	$ 280	$ 269
Buildings	1,282	1,209
Computer and other equipment	2,037	1,679
Leasehold improvements	350	319
	3,949	3,476
Accumulated amortization	(1,638)	(1,418)
Total	$ 2,311	$ 2,058

NOTE 9 OTHER ASSETS

	1998	1997
Accounts receivable, prepaid expenses and other items	$ 3,736	$ 1,475
Accrued interest receivable	1,633	1,246
Due from clients, dealers and brokers	1,474	744
Unrealized gains and amounts receivable on derivative contracts	12,552	6,655
Future income taxes	261	277
Goodwill and other valuation intangibles	793	837
Total	$ 20,449	$ 11,234

Goodwill and Other Valuation Intangibles

When we purchase a subsidiary or a specific investment in a portfolio of loans or securities we determine the fair value of the net assets being acquired and compare this to the amount we pay for the investment. Any excess of the amount paid compared to the fair value is considered to be goodwill or other valuation intangibles. This excess amount is deferred and amortized to income over the period that we believe the investment will benefit us, up to a maximum of 25 years. The unamortized balance of goodwill and other valuation intangibles is recorded in other assets and is written down to fair value when the expected cash flows generated by the acquired subsidiary or asset no longer support the carrying value and the shortfall is expected to remain for some time.

The components of goodwill and other valuation intangibles for each major subsidiary are as follows:

	1998	1997
Goodwill		
The Nesbitt Burns Corporation Limited and subsidiaries	$ 217	$ 246
Harris Bankcorp, Inc. and subsidiaries	202	201
Harris Bankmont, Inc. and subsidiaries	75	75
	494	522
Other valuation intangibles		
Harris Bankcorp, Inc. and subsidiaries	217	230
Harris Bankmont, Inc. and subsidiaries	74	74
Bank of Montreal Mortgage Corporation	8	11
	299	315
Total	$ 793	$ 837

Amortization of goodwill and other valuation intangibles is recorded in our Consolidated Statement of Income as:

	1998	1997	1996
Non-interest expense	$ 72	$ 74	$ 54
Interest expense	11	11	12
Total	$ 83	$ 85	$ 66

NOTE 10 OPERATING AND GEOGRAPHIC SEGMENTATION

We conduct our business through operating segments, each of which has a distinct market, product and geographic mandate. Information concerning the identification of these operating segments, including disclosure of their revenues, expenses, net income, average assets, loans and deposits, is set out in the tables on pages 31 to 42 of our Management Analysis of Operations.

NOTE 11 DEPOSITS

	Demand deposits				Payable after notice		Payable on a fixed date		Total	
	Interest bearing		Non-interest bearing							
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
Deposits by:										
Banks	$ 308	$ 186	$ 520	$ 465	$ 169	$ 697	$ 25,259	$ 29,924	$ 26,256	$ 31,272
Businesses and governments	2,966	2,569	8,637	7,875	7,597	7,132	38,864	37,325	58,064	54,901
Individuals	2,065	2,537	1,582	1,394	24,238	22,658	31,778	31,450	59,663	58,039
Total	$ 5,339	$ 5,292	$ 10,739	$ 9,734	$ 32,004	$ 30,487	$ 95,901	$ 98,699	$ 143,983	$ 144,212
Booked in:										
Canada	$ 4,036	$ 3,765	$ 5,722	$ 5,358	$ 23,155	$ 23,911	$ 47,232	$ 49,381	$ 80,145	$ 82,415
United States	957	1,443	4,986	4,315	8,694	5,896	28,724	24,000	43,361	35,654
Mexico	–	–	–	–	–	–	–	–	–	–
Other countries	346	84	31	61	155	680	19,945	25,318	20,477	26,143
Total	$ 5,339	$ 5,292	$ 10,739	$ 9,734	$ 32,004	$ 30,487	$ 95,901	$ 98,699	$ 143,983	$ 144,212

Demand deposits are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts, on which we pay interest. Our customers are required to give us notice prior to withdrawing money from these accounts.

Deposits payable on a fixed date are comprised primarily of various investment instruments purchased by our customers, such as term deposits and guaranteed investment certificates, to earn interest over a fixed period. The term of these deposits can vary from one day to seven years.

Deposits include federal funds purchased, which are overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 1998 we had purchased $3,461 and $2,501 as at October 31, 1997.

Deposits include commercial paper totalling $615 as at October 31, 1998 and $1,476 as at October 31, 1997.

Included in our deposits are $26,025 of individual deposits greater than $100,000.00 in Canada and $44,686 outside Canada as at October 31, 1998 and $27,795 in Canada and $45,407 outside Canada as at October 31, 1997. Of the total deposits booked in Canada $19,856 related to deposits maturing within six months or less as at October 31, 1998 and $21,594 as at October 31, 1997. Individual deposits greater than $100,000.00 outstanding at year end that are payable on a fixed date totalled $70,711 as at October 31, 1998 and $73,202 as at October 31, 1997.

NOTE 12 OTHER LIABILITIES

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers when the instrument matures. The amount due under acceptances is recorded as a liability and our corresponding claim is recorded as an asset in our Consolidated Balance Sheet.

Securities Sold but not yet Purchased

Securities which we have sold but not yet purchased represent our obligation to deliver securities which we did not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded as interest, dividend and fee income from securities in our Consolidated Statement of Income.

Securities Sold under Repurchase Agreements

Securities which we have sold under repurchase agreements represent short-term funding transactions where we sell securities that we already own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. These securities are recorded at their original cost. The interest expense related to these liabilities is recorded on an accrual basis.

	1998	1997
Acceptances	$ 6,944	$ 5,594
Securities sold but not yet purchased	7,843	10,304
Securities sold under repurchase agreements	29,758	21,389
	$ 44,545	$ 37,287
Accounts payable, accrued expenses and other items	$ 3,150	$ 3,166
Liabilities of subsidiaries, other than deposits	1,433	2,599
Accrued interest payable	1,298	1,161
Unrealized losses and amounts payable on derivative contracts	12,133	6,446
Deferred loan fees	132	82
Non-controlling interest in subsidiaries	517	151
Other	$ 18,663	$ 13,605
Total	$ 63,208	$ 50,892

Included in liabilities of subsidiaries, other than deposits are other short-term borrowings totalling $1,279 as at October 31, 1998 and $2,458 as at October 31, 1997.

NOTE 13 SUBORDINATED DEBT

Subordinated debt represents our direct unsecured obligations to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require prior approval from the Superintendent of Financial Institutions Canada before we can redeem any part of the subordinated debt.

Our subordinated debt consists of notes and debentures with interest rates ranging from 5.52% to 10.85%. The maturity dates extend from December 1998 to August 2089.

The interest rates on certain debenture series are variable based on various indices. In addition, certain series of subordinated debt are redeemable at our option on various dates prior to February 2012.

Included in subordinated debt are debentures and subordinated notes denominated in U.S. dollars totalling US$950 as at October 31, 1998 and US$750 as at October 31, 1997. The Canadian dollar equivalent of these is $1,466 as at October 31, 1998 and $1,056 as at October 31, 1997.

We have issued $1.0 billion medium-term notes under a $5.0 billion North American shelf offering program as at October 31, 1998 and $450 as at October 31, 1997.

We have also issued US$350 of subordinated debt under our $3.0 billion Euro Medium-Term Note Program. No notes were issued under this program in 1997.

Repayments of our subordinated debt required over the next five years and thereafter are:

1999	$ 10
2000	–
2001	–
2002	150
2003	250
Thereafter	4,381
Total	$ 4,791

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 SHARE CAPITAL

Outstanding

(Canadian $ in millions, except per share information)

	1998			1997			1996		
	Number of shares	**Amount**	**Dividends declared per share**	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares									
Class A – Series 4	**8,000,000**	**$ 200**	**$ 2.25**	8,000,000	$ 200	$ 2.25	8,000,000	$ 200	$ 2.25
Class A – Series 5	**288**	**72**	**19,062.50**	288	72	19,062.50	288	72	19,062.50
Class B – Series 1	**10,000,000**	**250**	**2.25**	10,000,000	250	2.25	10,000,000	250	2.25
Class B – Series 2	**10,000,000**	**386**	**US$1.69**	10,000,000	352	US$1.69	10,000,000	335	US$1.69
Class B – Series 3	**16,000,000**	**400**	**1.39**	16,000,000	400	0.93	–	–	–
Class B – Series 4	**8,000,000**	**200**	**0.90**	–	–	–	–	–	–
Class B – Series 5	**8,000,000**	**200**	**0.99**	–	–	–	–	–	–
Class B – Series 6	**10,000,000**	**250**	**0.63**	–	–	–	–	–	–
		1,958			1,274			857	
Common Shares	**264,433,198**	**3,095**	**1.76**	261,436,344	3,019	1.64	259,937,006	2,989	1.48
Total Outstanding Share Capital		**$ 5,053**			$ 4,293			$ 3,846	

	Redeemable	Redeemable starting...	Redeemable for...	Convertible...	Convertible starting...	Convertible into...	Dividend Rate and Terms
Preferred Shares							
Class A Series 4	At our option	September 20, 1999	$25.00 cash per share or an equivalent value of our common shares.	Not convertible	–	–	Quarterly, non-cumulative dividend equal to the greater of $0.5625 per share or 113.2% of the cash dividend paid on our common shares.
Class A Series 5	At our option	November 25, 1998	$250,000.00 per share to be redeemed on December 5, 1998.	At the share-holder's option	July 10, 1999	Our common shares. However, we have the right to pay $250,000.00 cash per share instead.	Quarterly, non-cumulative dividend of $4,765.625 per share.
Class B Series 1	At our option	February 25, 2001	$25.00 cash per share or an equivalent value of our common shares.	At the share-holder's option	August 25, 2001	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.5625 per share.
Class B Series 2 (US$ shares)	At our option	August 25, 2001	US$25.00 cash per share or an equivalent value of our common shares.	At the share-holder's option	February 25, 2002	Our common shares. However, we have the right to pay US$25.00 cash per share instead.	Quarterly, non-cumulative dividend of US$0.4219 per share.
Class B Series 3	At our option	August 25, 2004	$25.00 cash per share, plus a premium if we redeem the shares before August 25, 2006, or an equivalent value of our common shares.	At the share-holder's option	May 25, 2007	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.346875 per share.
Class B Series 4	At our option	August 25, 2005	$25.00 cash per share, plus a premium if we redeem the shares before August 25, 2007, or an equivalent value of our common shares.	At the share-holder's option	May 25, 2008	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.30 per share.
Class B Series 5	At our option	February 25, 2013	$25.00 cash per share.	Not convertible	–	–	Quarterly, non-cumulative dividend of $0.33125 per share.
Class B Series 6	At our option	November 25, 2005	$25.00 cash per share, plus a premium if we redeem the shares before November 25, 2007, or an equivalent value of our common shares.	At the share-holder's option	November 25, 2008	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.296875 per share.
Common Shares	Not redeemable	–	–	Not convertible	–	–	Dividends on common shares are declared by us on a quarterly basis and the amount can vary from quarter to quarter.

Authorized

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, providing the aggregate consideration we receive for the shares does not exceed $5.5 billion. We are authorized to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares without par value, in series, provided the aggregate amount of consideration we receive for all Class A and Class B Preferred Shares does not exceed $2.5 billion each. Class B Preferred Shares may be issued in a foreign currency.

Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we are, or would be as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

Common Shares

We maintain a Stock Option Plan for designated officers and employees. The options granted under this plan can be exercised starting five fiscal years from November 1 of the fiscal year in which the options are granted to the officer or employee. The options expire ten years from the date they are granted. The options can only be exercised when we meet certain performance targets. When the stock options are exercised we include the amount of the proceeds in shareholders' equity.

In 1996 we also granted options to Grupo Financiero Bancomer to purchase up to 9,957,285 of our common shares as part of the consideration paid for our investment in Grupo Financiero Bancomer. The options can be exercised starting on March 29, 2001 and expire on March 29, 2003. The options can only be exercised if Grupo Financiero Bancomer meets certain performance targets. The value we assigned to each option was $2.22, which has been included in the value of common shares in shareholders' equity.

One of our subsidiaries, Bank of Montreal Securities Canada Limited, has issued various classes of non-voting shares which can be exchanged for our common shares. Class B and C shares can be exchanged at the option of the holder for our common shares. The number of our common shares that will be issued on the exchange of these shares is based on a formula. Class E and F shares can be exchanged at the option of the holder on a one-for-one basis.

The Nesbitt Burns Corporation Limited, a subsidiary of Bank of Montreal Securities Canada Limited, has issued non-voting Class D shares which are exchangeable for our common shares. However, we have the option of redeeming these shares for cash, if we choose, with the amount based on the net book value of the shares.

As at October 31, 1998, we had reserved 6,327,942 common shares for potential issue in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan, 5,074,783 common shares in respect of the exchange of Class B, C, E and F shares of Bank of Montreal Securities Canada Limited, 1,000,000 common shares in respect of the exchange of Class D shares of The Nesbitt Burns Corporation Limited and 29,275,585 common shares for the potential exercise of stock options.

Potential Share Issuances

The following table sets out the number of common shares which we may issue in various circumstances:

		1998		1997	
	Issue date	Number of shares	Price per share	Number of shares	Price per share
Stock Option Plan	1995	**2,296,200**	**$ 25.50**	2,414,400	$ 25.50
	1996	**2,760,700**	**31.00**	2,838,500	31.00
	1997	**2,649,050**	**39.85**	2,758,850	39.85
	1997	**75,000**	**57.50**	75,000	57.50
	1998	**1,947,600**	**65.80**	–	–
	1998	**56,200**	**85.40**	–	–
		9,784,750		8,086,750	
Other options	1996	**9,957,285**	**$ 36.50**	9,957,285	$ 36.50
		19,742,035		18,044,035	
Other convertible issuances	1992	**1,605,021**	**$ 56.28**	–	$ –
	1992	**2,003,840**	**14.04**	2,763,516	14.03
	1994	**662,622**	**19.09**	2,237,474	18.07
		4,271,483		5,000,990	
Total		**24,013,518**		23,045,025	

This table does not include certain share issues which are redeemable at our option or subject to our ability to settle a conversion option with cash.

Stock options totalling 269,600 shares were exercised during the current year and options for 290,000 shares were exercised during the prior year. The number of stock options cancelled during the current year was 51,800 and options for 146,600 shares were cancelled during the prior year. The weighted average exercise price of all the options outstanding as at October 31, 1998 was $39.56 per share and $32.64 per share as at October 31, 1997.

At a weighted average exercise price of $32.35 per share, 429,350 stock options were exercisable as at October 31, 1998 and at a weighted average exercise price of $28.27 per share, 270,100 stock options were exercisable as at October 31, 1997.

NOTE 15 INCOME TAXES

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes.

In addition, we record income tax expense or benefit directly in retained earnings for those items recorded in shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Provision for Income Taxes	1998	1997	1996
Provision for income taxes reported in our Consolidated Statement of Income	$ 804	$ 840	$ 757
Income tax expense (benefit) related to foreign currency translation reported in shareholders' equity	(237)	(92)	10
Total	**$ 567**	$ 748	$ 767
Components of Total Income Taxes			
Canada:			
Current income taxes			
Federal	$ 243	$ 437	$ 440
Provincial	95	167	144
	338	604	584
Future income taxes			
Federal	16	(83)	47
Provincial	5	(24)	15
	21	(107)	62
Total Canadian	359	497	646
Foreign:			
Current income taxes	213	260	103
Future income taxes	(5)	(9)	18
Total Foreign	208	251	121
Total	**$ 567**	$ 748	$ 767

Net future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of our assets and liabilities and their values for tax purposes.

Changes in Accounting Policies

The Canadian Institute of Chartered Accountants has approved new standards for recording and disclosing income taxes beginning in fiscal 2001. Our practices already comply with these new standards.

Components of Future Income Tax Balances	1998	1997
Future Income Tax Assets		
Allowance for credit losses	$ 434	$ 370
Deferred items	84	95
Other	92	100
	610	565
Valuation allowance	(9)	(12)
Future Income Tax Assets	**601**	553
Future Income Tax Liabilities		
Premises and equipment	(156)	(132)
Deferred pension	(148)	(125)
Other	(36)	(19)
Future Income Tax Liabilities	**(340)**	(276)
Net Future Income Tax Asset	**$ 261**	$ 277

We review the valuation of our future income tax assets quarterly and adjust our valuation allowance, as necessary, to reflect the realizable amount of our future income tax assets. We expect that we will realize our future income tax assets in the normal course of our operations.

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have reported in our Consolidated Statement of Income:

	1998		1997		1996	
Combined Canadian federal and provincial income taxes and statutory tax rate	$ 915	42.0%	$ 909	41.9%	$ 816	42.0%
Increase (decrease) resulting from:						
Tax-exempt income	(82)	(3.8)	(71)	(3.3)	(67)	(3.5)
Foreign operations subject to different tax rates	(102)	(4.7)	(63)	(2.9)	(60)	(3.1)
Goodwill and other valuation intangibles not deductible for tax purposes	21	1.0	21	1.0	21	1.1
Large corporations tax	14	0.6	8	0.4	9	0.4
Financial institutions temporary surcharge	10	0.5	10	0.4	9	0.4
Other	28	1.3	26	1.2	29	1.6
Provision for Income Taxes and Effective Tax Rate	**$ 804**	**36.9%**	$ 840	38.7%	$ 757	38.9%

We are subject to Canadian taxation on the income earned in our foreign branches, and certain earnings of foreign subsidiaries when repatriated to Canada. Income which we earn in foreign countries is generally subject to tax in those countries. Upon repatriation of earnings from foreign subsidiaries, we will be required to pay tax on certain of these earnings. As repatriation of such earnings is not currently planned, we have not recognized the future tax liability. Canadian and foreign taxes that would be payable if all of our foreign subsidiaries' earnings were repatriated are $324 as at October 31, 1998 and $262 as at October 31, 1997.

NOTE 16 NET INCOME PER COMMON SHARE

Our basic net income per common share is calculated by dividing our net income, after deducting total preferred share dividends, by the daily average number of fully paid common shares outstanding throughout the year.

Our fully diluted net income per common share takes into account the effects of certain securities that we issue, such as stock options and redeemable and convertible securities, that could potentially decrease our net income per common share. In 1998, 1997 and 1996 the fully diluted amount included the potential dilution of certain convertible securities issued by a subsidiary. Additionally in 1998 and 1997, we have included the potential issuance of shares under stock options issued in 1995. The average number of common shares outstanding throughout the year used to calculate our fully diluted net income per common share is based on the assumption that all securities which are convertible or redeemable at the option of the holder occurred at the beginning of the year or at the date the security was issued, if later.

Our net income applicable to common shares and the average number of common shares outstanding for the year used to calculate our basic and fully diluted net income per common share are as follows:

	1998	1997	1996
Net income attributable to common shares – basic	**$ 1,238**	$ 1,222	$ 1,099
Average number of common shares outstanding – basic	**262,510,741**	260,409,736	261,232,729
Average number of common shares outstanding – fully diluted	**269,047,747**	268,699,928	268,361,643

Cash income per common share is calculated based on the net income available to common shareholders, excluding amortization of goodwill and other valuation intangibles after tax, divided by the daily average number of fully paid common shares outstanding throughout the year.

NOTE 17 PENSIONS

We have a number of pension plans which provide benefits to our employees in North America and other parts of the world. The principal pension plan covers Canadian employees. Our plans generally provide retirement benefits based on the employees' years of service and average earnings at the time of retirement and do not require employees to make contributions. Voluntary contributions can be made by employees.

Our actuaries perform regular valuations of the accrued obligation for pension benefits tc our employees based on assumptions about salary growth, retirement age and mortality. The pension plan assets are carried at market value and are set aside to satisfy our pension obligations.

The pension expense is recorded in our Consolidated Statement of Income as a component of salaries and employee benefits. It is determined by the cost of the employee pension benefits offset by the assumed investment return on the pension plan assets. When the actual return differs from the assumed, the experience gain or loss is deferred and allocated to future periods.

The cumulative difference between the pension expense and the actual cash contributions we make into the pension plans on our employees' behalf are included in our Consolidated Balance Sheet as part of other assets or other liabilities, as appropriate.

We also provide certain life insurance, health and dental care benefits for retired employees. The cost of these benefits is recorded in salaries and employee benefits expense as incurred.

The following table provides summaries of our pension plans' estimated financial positions:

	1998	1997	1996
Accumulated pension benefit obligation, including vested benefits of $1,826 in 1998, $1,631 in 1997 and $1,312 in 1996	**$ 1,864**	$ 1,670	$ 1,341
Projected pension benefit obligation for employee service rendered to date	**$ 2,125**	$ 1,877	$ 1,746
Pension plan assets at fair value	**2,678**	2,581	2,207
	553	704	461
Unrecognized net (gain) from past experience different from that assumed and effects of changes in actuarial assumptions	**(226)**	(397)	(174)
Prior period employee service costs not yet recorded	**52**	56	57
Unrecognized transition amount	**(1)**	(2)	(11)
Prepaid pension expense	**$ 378**	$ 361	$ 333
As at October 31, 1998, the pension plan assets consisted of equities (65%), fixed income investments (35%) and real estate and other investments (0%).			
Annual Pension Expense			
Net pension expense includes the following components:			
Pension benefits earned by employees	**$ 73**	$ 61	$ 59
Interest cost accrued on our projected pension benefit obligation	**153**	140	135
Actual investment return earned on pension plan assets	**(182)**	(453)	(344)
Net amortization and deferral	**(45)**	283	180
Annual pension expense	**(1)**	31	30
Canada and Quebec pension plan contribution	**34**	26	22
Total annual pension expense	**$ 33**	$ 57	$ 52
Actuarial Assumptions			
Weighted average discount rate for projected benefit obligation	**7.6%**	7.9%	7.9%
Weighted average rate of compensation increase	**3.8**	3.9	4.3
Weighted average expected long-term rate of return on pension plan assets	**8.1**	8.2	8.4

The cost of post-retirement life insurance, health and dental care benefits reported in employee benefits expense was $11 in 1998, $11 in 1997 and $10 in 1996.

NOTE 18 RELATED PARTY TRANSACTIONS

We provide banking services to our subsidiary companies on the same terms that we offer to our customers. In addition, we make loans to current and former directors, officers and employees at various rates and terms. The interest earned on these loans is recorded in interest, dividend and fee income in our Consolidated Statement of Income.

The amounts outstanding under these loan agreements are:

	1998	1997
Mortgage loans	**$ 745**	$ 835
Personal loans	**344**	360
Total	**$ 1,089**	$ 1,195

NOTE 19 RISK MANAGEMENT

Our business necessitates the management of several categories of risk including credit, market, liquidity and operational risks. The nature of the risks of our business and our management of them is set out in the discussion on page 43 of our Management Analysis of Operations. Specific measures of risk such as the allowance for credit losses, trading revenue, derivative financial instruments and fair value of financial instruments are set out in the consolidated financial statements. A summary of our interest rate gap position and effective interest rates on our financial instrument assets and liabilities is set out on page 58 of our Management Analysis of Operations.

We periodically use forward exchange contracts to hedge U.S. dollar revenues to minimize fluctuations in U.S. dollar earnings. These forward exchange contracts mature monthly as related revenues are recognized. The unrecognized loss associated with these forward contracts is $0.3 as at October 31, 1998 and $ nil as at October 31, 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 CREDIT COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit Instruments

As a part of our business, we enter into various commitments to provide our customers with sources of credit. These commitments include:

- Guarantees and standby letters of credit which represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements;
- Securities lending which represents our credit exposure when we lend our securities, or our customers' securities, to third parties;
- Documentary and commercial letters of credit which represent our agreement to honour drafts presented by a third party upon completion of specific activities;
- Commitments to extend credit to our customers in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions;
- Note issuance and revolving underwriting facilities and similar arrangements, including facilities under which we acquire short-term notes issued by our customers for a predetermined price in the event that the customer is unable to sell the notes to third parties.

In making these commitments, we expose ourselves to credit risk, being the risk that we may incur a loss if a counterparty fails to meet its obligations.

Summarized below is our contractual and risk-weighted equivalent value of our various commitments, which are based on the rules of capital adequacy of the Superintendent of Financial Institutions Canada. The risk-weighted equivalent value is used in the ongoing assessment of our capital adequacy ratios.

	1998		1997	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 14,006**	**$ 9,385**	$ 10,562	$ 7,468
Securities lending	**12,757**	**567**	13,547	1,454
Documentary and commercial letters of credit	**812**	**120**	1,637	290
Commitments to extend credit:				
Original maturity of one year and under	**59,972**	**–**	39,474	–
Original maturity of over one year	**34,890**	**16,737**	32,813	15,959
Note issuance and revolving underwriting facilities	**63**	**6**	–	–
Total	**$ 122,500**	**$ 26,815**	$ 98,033	$ 25,171

Commitments to extend credit in respect of consumer instalment and credit card loans are excluded as the lines are revocable at our discretion.

(b) Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment in order to conduct business. Our total contractual rental commitments outstanding as at October 31, 1998 are $819. The commitments for each of the next five years are $146 for 1999, $123 for 2000, $104 for 2001, $80 for 2002 and $366 for 2003 and thereafter. Included in these amounts are the commitments related to 686 leased Bank branch locations as at October 31, 1998. Net rent expense for premises and equipment reported in our Consolidated Statement of Income was $168 for 1998, $166 for 1997 and $156 for 1996.

(c) Legal Proceedings

Nesbitt Burns Inc., an indirect subsidiary of Bank of Montreal, has been named as a defendant in several class and individual actions in Canada and a class action in the United States brought on behalf of shareholders of Bre-X Minerals Ltd. ("Bre-X"). Other defendants named in one or more of these actions include Bre-X, officers and directors of Bre-X, mining consulting firms retained by Bre-X, Bre-X's financial advisor and brokerage firms which sold Bre-X common stock. The actions are largely based on allegations of negligence, negligent or fraudulent misrepresentation and breaches of the *Securities Exchange Act of 1934* (U.S. only), in connection with the sale of Bre-X securities. All of the actions are at a very preliminary stage. Based upon information presently available, counsel for Nesbitt Burns Inc. are not in a position to express an opinion as to the likely outcome of any of these actions. Management is of the view that the Company has strong defences and will vigorously defend against all such actions.

The Bank and its subsidiaries are party to other legal proceedings in the ordinary course of its business. Management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(d) Year 2000

Many computer systems process data based on storing two digits for the year of a transaction rather than all four digits. Systems that process year 2000 data with the year "00" may encounter significant processing inaccuracies and even inoperability before, on or after January 1, 2000. We have undertaken an enterprise-wide initiative to address the year 2000 issue and are implementing a comprehensive plan to prepare, as appropriate, our date-sensitive systems to recognize the change. However, it is not possible to be sure that all aspects of the year 2000 issue that may affect us, including those related to the efforts of customers, suppliers or other third parties with whom we conduct business, will not have a material impact on our operations.

(e) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. We had pledged investment and trading account securities and other assets totalling $39,097 as at October 31, 1998 and $35,879 as at October 31, 1997 as security for call loans, securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities. Additionally, we had deposited assets in the amount of $2,013 as at October 31, 1998 and $317 as at October 31, 1997 to act as security for our

participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

(f) Cash Restrictions

Some of our subsidiaries are required to maintain reserves or minimum balances with central banks in their respective countries of operation. Cash resources included $327 of these balances as at October 31, 1998 and $398 as at October 31, 1997.

NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS

We enter into interest rate, foreign exchange, equity and commodity contracts, to enable customers to manage risk, and for asset/liability management purposes where we manage our on- and off-balance sheet positions.

Trading derivatives are those derivatives which we undertake in order to assist customers in managing their exposures and to generate income from managing the resulting trading positions. Trading derivatives are marked to market. Realized and unrealized gains and losses are recorded in other income. A portion of the income derived from marking derivatives to market in respect of credit risk premiums and administrative costs is deferred and amortized to income over the life of the contracts. Unrealized gains on trading derivatives are recorded in other assets and unrealized losses are recorded in other liabilities.

Asset/liability management derivatives are those which are designated and effective as hedges which we use to manage exposures arising from our positions. For a hedge to be effective, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception and over the life of the hedge. Swaps, forwards and options, which are used for such purposes, are accounted for on the accrual basis, under which income and expense from the derivative instrument is accrued and there is no recognition of unrealized gains and losses on the derivative in the balance sheet. For swaps and forwards, interest income and expense from the hedging instrument is accrued and recorded as an adjustment to the income or expense related to the hedged position. Option premiums are amortized over the life of the contract to the income or expense line associated with the hedged position. Accrued interest receivable and payable and deferred gains and losses are recorded in other assets or other liabilities as appropriate. Realized gains and losses from the settlement or the early termination of contracts are deferred and amortized over the remaining life of the hedging instrument. Subsequent changes in the fair value of instruments identified as hedges, but which are no longer effective as hedges, are reported in other income.

Derivatives transactions, which are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets, include:

Swaps, which are contractual agreements between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, principal amounts and fixed and floating rate interest payments are exchanged in different currencies. For commodity swaps, counterparties generally exchange fixed and floating rate payments based on a notional value in a single commodity.

Forwards and futures, which are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Options, which are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a currency, commodity or financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting market risk. For options purchased by us, a premium is paid for the right to exercise the option, but we sustain credit risk due to the uncertainty as to the writer's ability to fulfill the conditions of the contract. Also included in options are caps, collars and floors, which are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the agreed upon difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

We conduct our trading activities through business units dealing in both on- and off-balance sheet positions, including derivatives, which are marked to market. The revenue generated by these units is disclosed on page 28 of the Management Analysis of Operations.

Losses incurred on defaults of counterparties charged to the allowance for credit losses in the years ended October 31, 1998, 1997 and 1996 were not significant.

The effect of asset/liability management derivatives on net interest income and the amount of deferred losses on such contracts was:

	1998	1997	1996
Asset/Liability Management Derivatives			
Increase in net interest income	**$ 37**	$ 89	$ 33
Deferred realized (losses)	**$ (15)**	$ (14)	$ (3)

The following table summarizes our derivative portfolio and related credit exposure:

Notional amount: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value, in effect the unrealized gains. Derivative instruments transacted through exchanges are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-weighted assets as they are deemed to have no additional credit risk. The amounts take into consideration offsetting, when we have a legally enforceable right to offset and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Credit risk equivalent: represents the total replacement cost and potential future credit exposure, taking into consideration offsetting as permitted by the Superintendent of Financial Institutions Canada.

Risk-weighted balance: represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the Superintendent of Financial Institutions Canada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	1998						1997					
	Notional amount						Notional amount					
	Customer trading	Asset/liability management	Total	Replacement cost	Credit risk equivalent	Risk-weighted balance	Customer trading	Asset/liability management	Total	Replacement cost	Credit risk equivalent	Risk-weighted balance
INTEREST RATE CONTRACTS												
Over-the-counter												
Swaps	$ 265,231	$ 38,381	$ 303,612	$ 4,077	$ 2,745	$ 831	$ 165,053	$ 22,574	$ 187,627	$ 2,012	$ 1,522	$ 367
Forward rate agreements	114,658	727	115,385	103	86	19	66,761	897	67,658	72	83	21
Purchased options	33,257	969	34,226	284	400	107	19,862	851	20,713	158	242	61
Written options	36,673	226	36,899	–	–	–	23,163	1,021	24,184	–	–	–
	449,819	40,303	490,122	4,464	3,231	957	274,839	25,343	300,182	2,242	1,847	449
Exchange traded												
Futures	57,317	3,310	60,627	–	–	–	69,987	563	70,550	–	–	–
Purchased options	16,050	–	16,050	–	–	–	10,853	–	10,853	–	–	–
Written options	12,629	–	12,629	–	–	–	13,397	–	13,397	–	–	–
	85,996	3,310	89,306	–	–	–	94,237	563	94,800	–	–	–
Total Interest Rate Contracts	535,815	43,613	579,428	4,464	3,231	957	369,076	25,906	394,982	2,242	1,847	449
FOREIGN EXCHANGE CONTRACTS												
Over-the-counter												
Cross-currency swaps	5,345	–	5,345	191	360	120	1,803	–	1,803	75	142	43
Cross-currency interest rate swaps	25,433	3,165	28,598	718	1,259	302	11,348	2,055	13,403	549	953	285
Forward foreign exchange contracts	265,912	9,257	275,169	5,934	5,674	1,738	260,287	9,418	269,705	3,642	4,103	1,144
Purchased options	38,381	–	38,381	1,147	1,494	438	11,867	–	11,867	202	332	102
Written options	45,025	–	45,025	–	–	–	12,542	–	12,542	–	–	–
	380,096	12,422	392,518	7,990	8,787	2,598	297,847	11,473	309,320	4,468	5,530	1,574
Exchange traded												
Futures	1,655	–	1,655	–	–	–	1,351	362	1,713	–	–	–
Purchased options	2,615	–	2,615	–	–	–	590	–	590	–	–	–
Written options	421	–	421	–	–	–	174	–	174	–	–	–
	4,691	–	4,691	–	–	–	2,115	362	2,477	–	–	–
Total Foreign Exchange Contracts	384,787	12,422	397,209	7,990	8,787	2,598	299,962	11,835	311,797	4,468	5,530	1,574
COMMODITY CONTRACTS												
Over-the-counter												
Swaps	7,611	–	7,611	203	666	313	3,200	–	3,200	116	451	201
Purchased options	3,151	–	3,151	167	426	197	1,019	–	1,019	65	170	71
Written options	3,530	–	3,530	–	–	–	1,127	–	1,127	–	–	–
	14,292	–	14,292	370	1,092	510	5,346	–	5,346	181	621	272
Exchange traded												
Futures	652	–	652	–	–	–	555	–	555	–	–	–
Purchased options	538	–	538	–	–	–	851	–	851	–	–	–
Written options	629	–	629	–	–	–	485	–	485	–	–	–
	1,819	–	1,819	–	–	–	1,891	–	1,891	–	–	–
Total Commodity Contracts	16,111	–	16,111	370	1,092	510	7,237	–	7,237	181	621	272
EQUITY CONTRACTS												
Over-the-counter	10	88	98	8	16	7	–	64	64	4	9	4
Exchange traded	905	–	905	–	–	–	822	–	822	–	–	–
Total Equity Contracts	915	88	1,003	8	16	7	822	64	886	4	9	4
Total	**$ 937,628**	**$ 56,123**	**$ 993,751**	**$ 12,832**	**$ 13,126**	**$ 4,072**	$ 677,097	$ 37,805	$ 714,902	$ 6,895	$ 8,007	$ 2,299

Included in the notional amounts above is $18,076 as at October 31, 1998 and $11,051 as at October 31, 1997 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Replacement cost is the total of unrealized gains and amounts receivable on derivative contracts. We excluded exchange traded instruments with unrealized gains of $172 as at October 31, 1998 and $143 as at October 31, 1997 because we are not required to provide capital against these instruments. Included in the total are unrealized gains on asset/liability management derivatives which we include in the Consolidated Balance Sheet on an accrual rather than market basis. The excess of market value over book value for these items was $452 as at October 31, 1998 and $383 as at October 31, 1997.

One technique that we use to reduce credit exposure is master netting agreements with customers, which allows us to net amounts due to/from a customer should the customer default on a contract. The potential reduction in replacement cost under master netting agreements was $4,715 as at October 31, 1998 and $2,425 as at October 31, 1997.

Transactions are conducted with counterparties in various geographic locations and industries. Based upon the ultimate risk, the replacement cost of contracts is recorded from customers located in:

	1998		1997	
Canada	$ 3,554	28%	$ 2,251	33%
United States	4,349	34	1,703	25
Mexico	16	–	11	–
Other countries	4,913	38	2,930	42
Total	$ 12,832	100%	$ 6,895	100%

The replacement cost of contracts is recorded from customers in the following industries:

	1998								1997							
	Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts		Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts	
Financial institutions	$ 3,778	85%	$ 6,495	81%	$ 90	24%	$ 8	100%	$ 1,875	84%	$ 3,968	89%	$ 41	23%	$ 4	100%
Other	686	15	1,495	19	280	76	–	–	367	16	500	11	140	77	–	–
Total	$ 4,464	100%	$ 7,990	100%	$ 370	100%	$ 8	100%	$ 2,242	100%	$ 4,468	100%	$ 181	100%	$ 4	100%

Set out below are the maturities and weighted average interest rates paid and received on interest rate contracts:

	Term to maturity										1998	1997
	Within 1 year	Rate %	1 to 3 years	Rate %	3 to 5 years	Rate %	5 to 10 years	Rate %	Over 10 years	Rate %	Total notional amount	Total notional amount
Interest Rate Contracts												
Fixed/Floating Swaps												
Canadian $ pay fixed	$ 30,048	5.07	$ 14,688	5.65	$ 7,700	5.87	$ 3,866	6.66	$ 150	5.64	$ 56,452	$ 45,753
Canadian $ receive fixed	28,329	5.11	19,926	5.71	15,630	5.79	6,350	5.65	296	5.97	70,531	53,927
US $ pay fixed	20,180	6.12	21,400	6.11	10,905	6.34	7,393	6.72	506	6.58	60,384	34,933
US $ receive fixed	26,840	5.99	14,022	6.31	8,178	6.23	5,938	6.47	757	6.44	55,735	29,735
Basis swaps	1,038	na	3,134	na	1,127	na	92	na	309	na	5,700	2,729
Other swaps	23,192	na	17,333	na	6,161	na	7,835	na	289	na	54,810	20,550
Total interest rate swaps	129,627		90,503		49,701		31,474		2,307		303,612	187,627
Forward rate agreements, futures and options	223,832	na	38,544	na	8,879	na	4,072	na	489	na	275,816	207,355
Total Interest Rate Contracts	353,459	na	129,047	na	58,580	na	35,546	na	2,796	na	579,428	394,982
Foreign Exchange Contracts												
Cross-currency swaps	675	na	2,028	na	506	na	1,819	na	317	na	5,345	1,803
Cross-currency interest rate swaps	5,923	na	8,148	na	6,786	na	6,682	na	1,059	na	28,598	13,403
Forward foreign exchange contracts, futures and options	351,154	na	9,653	na	1,979	na	403	na	77	na	363,266	296,591
Total Foreign Exchange Contracts	357,752	na	19,829	na	9,271	na	8,904	na	1,453	na	397,209	311,797
Commodity Contracts												
Swaps	4,768	na	2,316	na	299	na	228	na	–	na	7,611	3,200
Futures and options	6,997	na	1,464	na	37	na	2	na	–	na	8,500	4,037
Total Commodity Contracts	11,765	na	3,780	na	336	na	230	na	–	na	16,111	7,237
Total Equity Contracts	936	na	67	na	–	na	–	na	–	na	1,003	886
Total	$ 723,912	na	$ 152,723	na	$ 68,187	na	$ 44,680	na	$ 4,249	na	$ 993,751	$ 714,902

na = not applicable as weighted average rates are not meaningful.

US $ amounts are presented in Canadian $ equivalents.

Included in the notional amounts above is $18,076 as at October 31, 1998 and $11,051 as at October 31, 1997 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Rates represent the weighted average interest rates which we are contractually committed to pay/receive until the swap matures. The floating side of substantially all Canadian $ swaps is based on the one-month or three-month Canadian Bankers' Acceptance Rate. For US $ swaps the floating side is generally based on the one-month, three-month or six-month London Interbank Offered Rate.

Basis swaps are floating interest rate swaps where amounts paid and received are based on different indices or pricing periods.

Other swaps are contracts where the fixed side is denominated in a source currency other than Canadian $ or US $.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the fair value of our derivative financial instruments portfolio which is represented by the sum of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received:

	1998							1997		
	Customer trading			Asset/liability management			Total	Customer trading	Asset/liability management	Total
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net	Net	Net	Net	Net
Interest Rate Contracts										
Swaps	$ 3,352	$ (3,382)	$ (30)	$ 725	$ (586)	$ 139	$ 109	$ (91)	$ 347	$ 256
Forward rate agreements	103	(98)	5	–	–	–	5	22	–	22
Futures	24	(2)	22	–	–	–	22	3	–	3
Purchased options	274	–	274	19	–	19	293	182	11	193
Written options	–	(251)	(251)	–	(3)	(3)	(254)	(193)	(26)	(219)
Foreign Exchange Contracts										
Cross-currency swaps	191	(121)	70	–	–	–	70	57	–	57
Cross-currency interest rate swaps	712	(1,559)	(847)	6	(379)	(373)	(1,220)	(105)	(118)	(223)
Forward foreign exchange contracts	5,835	(4,724)	1,111	99	(127)	(28)	1,083	157	32	189
Futures	–	–	–	–	–	–	–	–	–	–
Purchased options	1,238	–	1,238	–	–	–	1,238	207	–	207
Written options	–	(995)	(995)	–	–	–	(995)	(155)	–	(155)
Commodity Contracts										
Swaps	203	(225)	(22)	–	–	–	(22)	28	–	28
Futures	–	(1)	(1)	–	–	–	(1)	(1)	–	(1)
Purchased options	193	–	193	–	–	–	193	149	–	149
Written options	–	(165)	(165)	–	–	–	(165)	(123)	–	(123)
Equity Contracts	23	(13)	10	7	(13)	(6)	4	3	–	3
Total Fair Value	$ 12,148	$ (11,536)	$ 612	$ 856	$ (1,108)	$ (252)	$ 360	$ 140	$ 246	$ 386
Total Book Value	$ 12,148	$ (11,536)	$ 612	$ 404	$ (597)	$ (193)	$ 419	$ 140	$ 69	$ 209
Average Fair Value	$ 7,488	$ (7,312)	$ 176	$ 753	$ (713)	$ 40	$ 216	$ 84	$ 279	$ 363

In order to calculate fair values:

- Instruments are marked to market using quoted market rates and/or zero coupon valuation techniques.
- Zero coupon curves are created using generally accepted mathematical processes from underlying instruments such as cash, bonds, futures and off-balance sheet prices observable in the market.
- Options volatilities are either obtained directly from market sources or implied from market prices utilizing a modified Black-Scholes Option Pricing algorithm.
- All prices and rates used are independently validated to ensure consistency and accuracy.

Assets are shown net of liabilities to customers where we have an enforceable right to offset amounts and we intend to settle contracts on a net basis.

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS

As a financial institution we record trading assets at market values and non-trading assets and liabilities at their original amortized cost. Set out on the following page is a comparison of the amounts which would be reported if all of our financial instrument assets and liabilities were reported at their fair value. Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of our legal entities or underlying operations that comprise our business.

For the most part, fair value amounts represent our estimate of the amounts we could exchange the financial instruments for with third parties who were interested in acquiring the instruments. However, in some cases the financial instruments are not typically exchanged and therefore it is difficult to determine their fair value. In those cases, we have estimated fair value assuming that we will not sell the assets or liabilities, taking into account only changes in interest rates and credit risk that have occurred since we acquired them or entered into a contract.

Interest rate sensitivity is the main cause of change in the fair value of our financial instruments.

	1998				1997			
	Book value	**Fair value of assets and liabilities**	**Fair value of ALM derivatives**	**Fair value over (under) book value**	Book value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value
Assets								
Cash resources	**$ 19,730**	**$ 19,730**	**$ (233)**	**$ (233)**	$ 32,245	$ 32,245	$ (8)	$ (8)
Securities (note 4)	**43,465**	**43,634**	**–**	**169**	41,789	42,243	1	455
Loans	**129,691**	**129,856**	**344**	**509**	114,918	115,674	90	846
Customers' liability under acceptances	**6,944**	**6,944**	**–**	**–**	5,594	5,594	–	–
Other assets	**20,449**	**20,449**	**–**	**–**	11,234	11,234	–	–
	220,279	**220,613**	**111**	**445**	205,780	206,990	83	1,293
Liabilities								
Deposits	**143,983**	**144,365**	**192**	**574**	144,212	144,659	(76)	371
Acceptances	**6,944**	**6,944**	**–**	**–**	5,594	5,594	–	–
Securities sold but not yet purchased	**7,843**	**7,843**	**–**	**–**	10,304	10,304	–	–
Securities sold under repurchase agreements	**29,758**	**29,758**	**–**	**–**	21,389	21,389	–	–
Other liabilities	**18,663**	**18,678**	**–**	**15**	13,605	13,619	–	14
Subordinated debt	**4,791**	**5,170**	**(22)**	**357**	3,831	4,222	(18)	373
	$ 211,982	**$ 212,758**	**$ 170**	**$ 946**	$ 198,935	$ 199,787	$ (94)	$ 758
Total				**$ (501)**				$ 535

ALM = asset/liability management derivatives which we use to manage the interest rate and foreign exchange exposures arising from our on-balance sheet positions.

The following sets out the valuation methods and assumptions we have used to estimate fair value:

Due to the short-term nature of certain assets and liabilities we believe that the book value is comparable to the estimated fair value. These assets and liabilities include:

- Cash resources
- Customers' liability under acceptances
- Other assets
- Acceptances
- Securities sold but not yet purchased
- Securities sold under repurchase agreements
- Other liabilities, excluding liabilities of subsidiaries, other than deposits.

The fair values of loans are determined using a variety of valuation methods, depending on the nature of the loan, which include:

- Fair value of loans to and past due interest bonds of designated countries, as defined in note 5, is based on quoted market rates;
- Fair value of performing loans is calculated by adjusting the original value of the loan for changes in credit risk and interest rates since the time we granted the loan; and
- Fair value of impaired loans is equal to the book value which is calculated using the basis of valuation described in notes 5 and 6.

The fair value of our deposits is determined by discounting the cash flows to be paid on the deposits using market interest rates currently offered for similar deposits.

The fair value of our subordinated debt and liabilities of subsidiaries included in other liabilities is determined by referring to current market prices for similar debt instruments.

Our estimates of fair values are calculated based on our current pricing policy, the economic and competitive environment and the characteristics of the financial instruments. Our calculations are subjective in nature and require us to make significant assumptions. Tax implications, if any, are excluded from the calculations.

Included in the excess of fair value over book value of loans is $2 as at October 31, 1998 and 1997 for loans to designated countries and $41 as at October 31, 1998 and $57 as at October 31, 1997 for past due interest bonds of designated countries.

Premises and equipment are not financial instruments and have been excluded from our estimate of fair value. The net amounts excluded totalled $2,311 as at October 31, 1998 and $2,058 as at October 31, 1997.

NOTE 23 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles, including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada. As a result of listing our common shares on the New York Stock Exchange we are required by the United States Securities and Exchange Commission to report all material differences between Canadian and United States accounting principles. There are no material differences in the consolidated total assets and liabilities as at October 31, 1998 and 1997 or the consolidated net income, consolidated shareholders' equity and consolidated statement of cash flow for the years ended October 31, 1998, 1997 and 1996 that have been reported in accordance with Canadian accounting principles compared to what we would have reported if we had used United States accounting principles.

Future Changes in United States Accounting Policies

In future years, we will be required to adopt new accounting standards set out below for our United States reporting which may or may not give rise to material differences with our current Canadian accounting principles. We assess the potential impact of new policies when they are issued by standard setters and report the potential differences in this note.

No material differences

The pending changes in United States generally accepted accounting principles and our assessment of the potential impact are:

- Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which must be adopted in fiscal 1999 for United States reporting purposes. This Statement establishes standards for reporting comprehensive income, which is defined as all changes in equity except investments by and distributions to shareholders. There will be no impact on our reported total assets or net income as the statement addresses only presentation of comprehensive income. Under this standard our unrealized gain (loss) on net investment in foreign operations, which currently is reported as a component of shareholders' equity, would be reported as a component of comprehensive income.
- Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", which must be adopted in fiscal 2000 for United States reporting purposes. This Statement outlines accounting and reporting standards for derivative instruments and hedging activities. Under this standard, all derivatives will be recognized at fair value in the balance sheet, and changes in the fair value of these instruments will be accounted for depending on the intended use of each derivative and its designation as a hedge. The adoption of this standard is not expected to have a material effect on our reported assets, liabilities or net income.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Bank's management is responsible for presentation and preparation of the annual consolidated financial statements, Management Analysis of Operations ("MAO") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which in our circumstances are consistent with accounting principles generally accepted in the United States. The financial statements also comply with the provisions of the Bank Act and related regulations, including the accounting requirements of the Superintendent of Financial Institutions Canada, as well as the requirements of the Securities and Exchange Commission in the United States.

The MAO has been prepared in accordance with the requirements of securities regulators including National Policy 47 of the Canadian Securities Administrators as well as Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MAO necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MAO also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and audit including organizational and procedural controls and internal accounting controls. Our system of internal control includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements. The Shareholders' Auditors review our system of internal control and conduct their work to the extent that they consider appropriate in order to provide their opinion on our consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, including the MAO, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit, Risk Review and Conduct Review Committees. These committees are composed solely of directors who are not officers or employees of the Bank.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.

M. W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. A. Comper

F. Anthony Comper
President and
Chief Operating Officer

R. Wells

Robert B. Wells, C.A.
Executive Vice-President and
Chief Financial Officer

SHAREHOLDERS' AUDITORS' REPORT

To the Shareholders of Bank of Montreal

We have audited the consolidated balance sheets of Bank of Montreal as at October 31, 1998 and 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the years in the three-year period ended October 31, 1998. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1998 and 1997 and the results of its operations and its cash flow for each of the years in the three-year period ended October 31, 1998 in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

KPMG LLP
Chartered Accountants

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Canada
November 24, 1998

BANK OWNED CORPORATIONS

Corporations in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Percent of voting shares owned by the Bank	Book value of common and preferred shares owned by the Bank (Cdn $ in millions)
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100	–
Bank of Montreal Capital Corporation	Toronto, Canada	100	45
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100	77
Bank of Montreal Europe Limited	London, England	100	
BMO Nesbitt Burns International Ltd.	London, England	100	
Bank of Montreal Global Capital Solutions Ltd.	Calgary, Canada	100	10
Bank of Montreal Holding Inc.	Calgary, Canada	100	2,880
Bank of Montreal Asia Limited	Singapore, Republic of Singapore	100	
Bank of Montreal Insurance (Barbados) Limited	Bridgetown, Barbados	100	
Bank of Montreal Securities Canada Limited	Toronto, Canada	100	
The Nesbitt Burns Corporation Limited and subsidiaries	Montreal, Canada	100	
BMO Investments Ltd.	Hamilton, Bermuda	100	
Bank of Montreal Investor Services Limited	Toronto, Canada	100	9
Bank of Montreal Ireland plc	Dublin, Ireland	100	395
Bank of Montreal Mortgage Corporation	Calgary, Canada	100	994
BMRI Realty Investments	Toronto, Canada	100	
Bankmont Financial Corp.	Wilmington, United States	100	3,777
Bank of Montreal Global Capital Solutions, Inc. and subsidiary	Wilmington, United States	100	
BMO Financial, Inc.	Wilmington, United States	100	
BMO Nesbitt Burns Equity Group (U.S.), Inc. and subsidiaries	Chicago, United States	100	
EFS (U.S.), Inc.	Chicago, United States	100	
Harris Bankcorp, Inc. and subsidiaries	Chicago, United States	100	
Harris Bankmont, Inc. and subsidiaries	Dover, United States	100	
Harris Trust/Bank of Montreal	West Palm Beach, United States	100	
Nesbitt Burns Securities Inc. and subsidiary	Chicago, United States	100	
BMO Ireland Finance Company	Dublin, Ireland	100	354
BMO Nesbitt Burns Equity Partners Inc.	Toronto, Canada	100	32
Cebra Inc.	Toronto, Canada	100	20
First Canadian Funds Inc.	Toronto, Canada	100	44
Lakeshore Funding Company LLC	Wilmington, United States	100	1,512
The Trust Company of Bank of Montreal	Toronto, Canada	100	23

The above is a list of all our directly held corporations, as well as their directly held corporations, including all of our major operating companies and those issuing third party liabilities. The book values of the corporations shown represent the total common and preferred equity value of our holdings.

We own 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which we own 76.42% of the outstanding non-voting shares.

GLOSSARY OF FINANCIAL TERMS

Allowance for Credit Losses
An amount set aside and deemed adequate by management to absorb potential credit-related losses in a bank's portfolio of loans, acceptances, guarantees, letters of credit, deposits with other banks and derivatives. Allowances for credit losses can be specific or general and are accounted for as deductions from the related assets in the financial statements.

Assets under Administration and under Management
Assets administered and/or managed by a financial institution that are beneficially owned by clients or investors and are therefore not reported on the balance sheet of the financial institution.

Average Earning Assets
This amount represents the daily or monthly average balance over a one-year period of deposits with other banks, loans and securities.

Bankers' Acceptance (BA)
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point
One one-hundredth of a percentage point.

Collateralized Bond Obligation
Debt instrument supported by pool of high-yield or investment grade bonds.

Counterparty
The opposite side of any transaction, typically a bank's corporate or commercial customers or another financial institution. Counterparty risk refers to the risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction it has entered into.

Derivatives
A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates, and equity and commodity prices. See also individual definitions of forwards and futures, forward rate agreements, options and swaps.

Duration
A measure of the average time interval required for an expected stream of cash flows to repay the original investment, i.e., shorter duration means faster recovery of the original investment.

Earnings at Risk
Earnings at Risk is the impact on net income over the following 12 months of a one time change in market rates/prices.

Economic Value-at-Risk
Economic Value-at-Risk is the impact on the value of our assets and liabilities of a change in market rates/prices.

Forwards and Futures
Contractual agreements to either buy or sell a specified currency or financial instrument on a specified future date at a specified price. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Forward Rate Agreement (FRA)
A type of derivative obliging two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. An FRA can act as a hedge against future movements in market interest rates.

Group of Seven
This international group, also known as G-7, comprises the seven leading industrial democracies, namely Britain, Canada, France, Germany, Italy, Japan and the United States. The group was established in 1986 to co-ordinate economic and monetary policy.

Guarantees and Standby Letters of Credit
Primarily represent a bank's obligation to make payments to third parties on behalf of its customers if its customers are unable to make the required payments or meet other contractual requirements.

Hedge
A risk management technique used to neutralize/manage interest rate or foreign currency exchange exposures arising from normal banking operations.

Impaired Loans
Loans are classified as impaired when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest. Interest on impaired loans is only recognized as interest revenue when management has reasonable assurance of the timely collection of the full amount of principal and interest.

Margining
Margins for futures contracts are money or securities used as an initial deposit as assurance that the contract will be fulfilled. Margining refers to adjustments made to the initial deposit as market movement causes the fair value of the instrument to fluctuate, possibly requiring additional deposits to be placed with the exchange.

Mark-to-Market
Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Net Interest Income
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debentures.

Net Interest Margin (Spread)
Average net interest margin is the ratio of net interest income to average assets. This is also referred to as spread.

Notional Amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of a derivative contract.

Off-Balance Sheet Financial Instrument
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future if a contingent event occurs. A variety of products offered to customers can be classified as off-balance sheet and they fall into two broad categories: (i) credit-related arrangements, which provide customers with liquidity protection, and (ii) derivatives.

Options
Contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

Over-the-Counter (OTC)
Trading that occurs outside of organized or regulated securities exchanges, carried out by broker-dealers who communicate with one another by telephone and quotation terminals. Prices on OTC instruments are negotiated between buying and selling brokers. Certain OTC instruments are traded in accordance with rules prescribed by self-regulating bodies.

Provision for Credit Losses
A charge to income which represents an appropriate expense given the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established. Specific provisions are established to reduce the book value of specific assets (primarily loans) to establish the amount expected to be recovered on the loans. A country risk provision is established for loans to and securities of countries identified by OSFI that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. A general allowance for loan losses is established in recognition of the fact that not all of the impairment in a loan portfolio can be specifically identified on a loan-by-loan basis.

Regulatory Capital Ratios
The percentage of risk-weighted assets supported by capital, as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI) under the framework of risk-based capital standards developed by the Bank for International Settlements. These ratios are labelled Tier 1 and Tier 2. Tier 1 capital is considered to be more permanent in nature, consisting of common shares together with any qualifying non-cumulative preferred shares less unamortized goodwill. Tier 2 capital consists of other preferred shares, subordinated debentures and general allowances.

Replacement Cost of Derivative Contracts
The cost of replacing a derivative contract that has a positive fair value at current market rates should a counterparty fail to settle.

Repurchase Agreement (Repo)
A type of transaction where a security is sold with the commitment by the seller to repurchase the security at a specified price and time.

Return on Common Shareholders' Investment (ROI)
This amount is calculated as the annualized total return on an investment in our common shares made at the beginning of a designated period, usually one or five years. Total return on common shares includes the effect of a change in the share price and assumes that dividends received on common shares are reinvested in additional common shares.

Return on Equity (ROE)
This represents net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

Reverse Repurchase Agreement (Reverse Repo)
See Securities Purchased under Resale Agreements.

Risk

Country Risk
Also known as sovereign risk, it is the risk that economic or political change in a country may impact repayments to creditor banks. This risk is considered higher for certain emerging market and lesser-developed countries specifically identified by OSFI.

Credit Risk
The possibility that a loss may be incurred in the event that borrowers or counterparties to financial instruments transacted with a bank will be unable to discharge their obligations under the instruments.

Foreign Exchange Risk
Foreign exchange risk refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment.

Interest Rate Risk
Interest rate risk is the potential impact on a bank's earnings and economic value due to changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest margin earned on a fixed yield mortgage portfolio.

Liquidity Risk
Refers to potential demands on a bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions.

Market Risk
Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity and commodity prices, spread and basis risk and the implied volatility of these rates and prices.

Operational Risk
The potential loss, including adverse impact on reputation, resulting from a breakdown in communications, information or transaction processing or legal/compliance issues, due to systems or procedural failures, error, natural disasters or criminal activity. This risk represents a bank's potential exposure to unexpected loss as a result of pursuing business objectives.

Replacement Risk
The risk that a financial contract will need to be replaced in the open market at a cost to the bank/enterprise.

Risk-Weighted Assets
Used in the calculation of risk-based capital ratios. The face amount of assets is discounted using predetermined risk-weighting factors in order to reflect a comparable risk per dollar among all types of assets. Adjusting notional values to balance sheet (or credit) equivalents and then applying appropriate risk-weighting factors also recognizes the risk inherent in off-balance sheet instruments.

Risk Adjusted Return On Capital (RAROC)
A measurement tool that enables management to allocate capital, and the related cost of capital, in respect of credit, market and operational risk by type of transaction, customer and line of business. This facilitates the deployment of capital to business units that can provide the maximum shareholder value on the capital invested.

Securities Purchased under Resale Agreements
A type of transaction that involves the purchase of a security, normally a government bond, with the commitment by the buyer to resell the security to the original seller at a specified price on a specified date in the future.

Securities Sold Short
A transaction in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities. On the balance sheet, this category represents our obligation to deliver securities that we did not own at the time of sale.

Swaps
Contractual agreements between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency interest rate swaps, principal amounts and fixed and floating rate interest payments are exchanged in different currencies.

Taxable Equivalent Basis (TEB) Adjustment
An addition to interest income to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income that appears in the financial statements. This results in a better reflection of the pre-tax economic yield of these assets and facilitates uniform measurement and comparison of net interest income.

Value at Risk (VaR)
VaR measures the adverse impact on the value of a portfolio, over a specified time period, of potential changes in market rates and prices. VaR is usually measured at a 99% confidence interval and assumes that changes in rates and prices are correlated.

Volatility
A term which generally refers to a measure of price variance, usually the standard deviation of returns from a security or a portfolio of securities over a specified period of time.

CORPORATE GOVERNANCE

Corporate governance practices continue to evolve at a rapid pace, requiring constant review, evaluation and modification to the Bank's program to ensure ongoing effectiveness. Throughout the 90s, Bank of Montreal has been a pacesetter in establishing high standards of corporate governance.

In 1998, *Investor Relations Magazine* presented the Bank with one of its Canada Awards in recognition of corporate governance policies that best support the interests of shareholders. The Bank also this year received the 1998 Annual Report Award, sponsored by the Canadian Institute of Chartered Accountants and *National Post*, for corporate governance disclosure.

An overview of our program follows.

CORPORATE GOVERNANCE AT A GLANCE

Board Governance and Administration Committee ("Governance Committee")	▪ Responsible for the Board's governance program, including staffing and functioning of the Board, and evaluation of all aspects of governance. ▪ Established in 1991. ▪ Entirely comprised of outside, independent directors.
Board Independence from Management	▪ Board policy ensures that no more than two directors are from management. ▪ Chair of Governance Committee serves as lead director and chairs "in camera" (management directors absent) sessions of the Board during every Board meeting. ▪ *Approval and Oversight Guidelines* set out those matters requiring Board approval versus those within the purview of management, which are reported to the Board after the fact. ▪ Directors are annually designated as to their status – "related" or "unrelated". For 1998, 15 of 16 outside directors were "unrelated". One was "related" because his company is a customer of the Bank. This proportion far exceeds the level required by the Bank Act. ▪ Human Resources and Management Compensation Committee is responsible for CEO succession planning, monitoring succession planning at lower levels of management, and providing oversight of all other key aspects of the human resources management policy.
Setting Agendas	▪ Committee chairs and other directors submit items for inclusion on Board agendas. ▪ Following every committee meeting, committee chairs report to the full Board on activities of their committees. ▪ Committee chairs and committee members develop the agendas for their respective committees.
Board Composition and Director Selection	▪ Governance Committee establishes Board committee structure, determines composition and mandates, and recommends director nominees to the Board. ▪ Governance Committee determines size of the Board, its composition and membership mix, as well as the process for selection of independent directors. ▪ Governance Committee is also responsible for director succession planning. ▪ All committees are composed of outside directors except Executive Committee, of which Chairman and CEO and President and COO are members, and Risk Review Committee, of which President and COO is a member. ▪ Committees engage independent consultants as they see fit to assist in discharging their responsibilities.
Accountability for Performance and Competence	**Board** ▪ A *Charter of Expectations for Directors* is in place for the Board. ▪ Board policies include: – attendance at less than 75% of meetings automatically triggers resignation – mandatory retirement at age 70; and – the required tendering of a director's resignation on change in principal occupation. ▪ An annual director peer performance review process is in place, using an outside consultant to compile results. ▪ An annual assessment of Board performance is conducted, using an outside consultant to compile results. The results are reviewed with the Governance Committee followed by a presentation to the full Board. ▪ There is a comprehensive orientation and education program for new directors. ▪ Annual all-day strategy sessions are conducted to ensure directors are fully versed in the Bank's strategic plan. ▪ An electronic directors' network provides continuous and timely communication with directors.

	Management • A comprehensive job description is in place for CEO. • An annual assessment of the Chairman and CEO's performance in his role as CEO is conducted by Human Resources and Management Compensation Committee. His performance is measured against predetermined quantitative and qualitative criteria. • A separate annual assessment of the Chairman and CEO's performance in his role as Chairman is conducted by Governance Committee.
Compensation	**Board** • The Directors' Stock Plan requires directors to take a minimum of 50% of their retainer in Bank stock or deferred share units and offers the option of taking up to 100% of both retainer and meeting fees in this manner. For 1998, more than 80% of directors received their entire retainer and their meeting fees in stock or deferred share units. • Directors' compensation is annually benchmarked against Canadian and North American peer groups. • Governance Committee recommends to the Board the level and nature of directors' compensation. **Management** • Executive compensation is determined by Human Resources and Management Compensation Committee, which relies on independent consultants to gauge market competitiveness. • Rigorous corporate, individual and team performance thresholds for both long-term and short-term incentive plans ensure that the total compensation of executive officers is aligned with maximizing shareholder value. • Base salaries are set relative to the practices of comparable financial institutions.
Shareholder Communications	• The Bank is committed to fair treatment of shareholders, irrespective of size of their holdings. • Governance Committee, not management, assesses merits of shareholder proposals and recommends to the Board their appropriateness for inclusion in the Proxy Circular. • Shareholder communications include updates on governance issues. • Regular investor relations reports are given to the Board. • Regular meetings are held with institutional shareholders. For a more detailed report on our Corporate Governance Program, please refer to the Bank's Proxy Circular.

DIRECTORS AND OFFICERS – BANK OF MONTREAL

AS AT OCTOBER 31, 1998

DIRECTORS

Matthew W. Barrett, O.C.
Chairman of the Board and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Ralph M. Barford
Toronto, Ont.
President
Valleydene Corporation Limited

David R. Beatty, O.B.E.
Toronto, Ont.
Chairman and
Chief Executive Officer
Old Canada Investment
Corporation Limited

Peter J.G. Bentley, O.C., LL.D.
Vancouver, B.C.
Chairman of the Board
Canfor Corporation

John F. Fraser, O.C., LL.D.
Winnipeg, Man.
Chairman
Air Canada

David A. Galloway
Toronto, Ont.
President and
Chief Executive Officer
Torstar Corporation

J. Blair MacAulay
Oakville, Ont.
Counsel
Fraser Milner, Toronto

Ronald N. Mannix
Calgary, Alta.
Chairman and
Chief Executive Officer
Loram Corporation

Frank McKenna
Cap Pelé, N.B.
Counsel
McInnes Cooper &
Robertson, Moncton

Robert H. McKercher, Q.C.
Saskatoon, Sask.
Senior Partner
McKercher McKercher & Whitmore

Eric H. Molson
Montreal, Que.
Chairman of the Board
The Molson Companies Limited

Jean C. Monty, C.M.
Montreal, Que.
President and
Chief Executive Officer
BCE Inc.

Jerry E.A. Nickerson
North Sydney, N.S.
Chairman
H.B. Nickerson & Sons Ltd.

Jeremy H. Reitman
Montreal, Que.
President
Reitmans (Canada) Limited

Guylaine Saucier, C.M., F.C.A.
Montreal, Que.
Chairman, Board of Directors
Canadian Broadcasting
Corporation

Nancy C. Southern
Calgary, Alta.
Deputy Chairman and
Deputy Chief Executive Officer
ATCO Ltd. and
Canadian Utilities Limited

Lorne C. Webster
Montreal, Que.
Chairman and
Chief Executive Officer
Prenor Group Ltd.

HONORARY DIRECTORS

Charles F. Baird
Bethesda, Maryland, U.S.A.

Claire P. Bertrand
Montreal, Que.

The Honourable
Sidney L. Buckwold, O.C.
Saskatoon, Sask.

Fred S. Burbidge, O.C.
Frelighsburg, Que.

Pierre Côté, C.M.
Quebec City, Que.

C. William Daniel, O.C., LL.D.
Toronto, Ont.

Nathanael V. Davis
Osterville, Massachusetts, U.S.A.

Graham R. Dawson
Vancouver, B.C.

Louis A. Desrochers, M.C., c.r.
Edmonton, Alta.

John H. Devlin
Toronto, Ont.

A. John Ellis, O.C., LL.D., O.R.S.
Vancouver, B.C.

Thomas M. Galt
Toronto, Ont.

J. Peter Gordon, O.C.
Mississauga, Ont.

John H. Hale
London, England

G. Arnold Hart, M.B.E., C.M.
Mountain, Ont.

Donald S. Harvie, O.C.
Calgary, Alta.

Richard M. Ivey, O.C., Q.C.
London, Ont.

Betty Kennedy, O.C., LL.D.
Milton, Ont.

David Kinnear
Toronto, Ont.

Donald A. McIntosh, Q.C.
Thornhill, Ont.

The Honourable
Hartland de M. Molson, O.C., O.B.E.
Montreal, Que.

William D. Mulholland, LL.D.
Georgetown, Ont.

Lucien G. Rolland, O.C.
Montreal, Que.

Mary Alice Stuart, C.M., O.ONT., LL.D.
Toronto, Ont.

OFFICERS

Matthew W. Barrett, O.C.
Chairman of the Board and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Jeffrey S. Chisholm
Vice-Chairman
Electronic Financial Services and
President, mbanx

Gary S. Dibb
Vice-Chairman
Corporate Services and
Organizational Development

Keith O. Dorricott
Vice-Chairman

Alan G. McNally
Vice-Chairman and
Chairman of the Board and
Chief Executive Officer
Harris Bankcorp, Inc.

Ronald G. Rogers
Vice-Chairman
Personal and Commercial
Financial Services

Brian J. Steck
Vice-Chairman
Investment and Corporate
Banking and Chairman and
Chief Executive Officer
The Nesbitt Burns
Corporation Limited

Lloyd F. Darlington
Chief Technology Officer and
General Manager, Emfisys

Yvan J.P. Bourdeau
Executive Vice-President,
Treasurer and
Head of Portfolio and
Risk Management Group

Ellen M. Costello
Executive Vice-President
Global Treasury
Investment Bank

William A. Downe
Executive Vice-President
Global Corporate Banking

Barry K. Gilmour
Executive Vice-President
Systems

George W. Hopkins
Executive Vice-President
Corporate Staff

Maurice A.D. Hudon
Executive Vice-President
Ontario Division
Personal and Commercial
Financial Services

Terry A. Jackson
Executive Vice-President
Asset Management Services
and President
The Trust Company of
Bank of Montreal

Marnie J. Kinsley
Executive Vice-President
mbanx Canada

Kathryn M. Lisson
Executive Vice-President
Information Technology
Planning and Strategy

Neil R. Macmillan
Executive Vice-President
Asset Portfolio Management

Michel G. Maila
Executive Vice-President
Risk Management Group

Timothy J. O'Neill
Executive Vice-President and
Chief Economist

Robert W. Pearce
Executive Vice-President
North American Electronic
Banking Services

Michael R.P. Rayfield
Executive Vice-President
Corporate Banking

Deanna Rosenswig
Executive Vice-President
Corporate Electronic
Financial Services

Harriet H. Stairs
Executive Vice-President
Human Resources

Robert B. Wells
Executive Vice-President and
Chief Financial Officer

Andrew R. White
Executive Vice-President
Corporate Services

Dereck M. Jones
Senior Vice-President and
General Counsel

Penelope F. Somerville
Senior Vice-President and
Corporate Controller

Johanne M. Totta
Senior Vice-President and
Chief Auditor

Christopher B. Begy
Vice-President and
Chief Accountant

Velma J. Jones
Vice-President and Secretary

SHAREHOLDER INFORMATION

COMMON STOCK TRADING INFORMATION DURING 1998

Primary Stock Exchanges	Ticker	Year-end Price Oct. 31, 1998	High	Low	Total Volume of Shares Traded
Toronto/Montreal	BMO CN	**$ 63.10**	$ 87.00	$ 51.75	232.4 million
New York	BMO US	**US$ 40.875**	US$ 60.0625	US$ 34.125	5.9 million

DIVIDENDS PER SHARE DECLARED DURING FISCAL YEAR

Issue/Class	Ticker	Shares Outstanding at Oct. 31, 1998	1998	1997	1996	1995	1994
Common	BMO	264,433,198	**$ 1.76**	$ 1.64	$ 1.48	$ 1.32	$ 1.20
Preferred Class A							
Series 4	BMO D	8,000,000	**$ 2.25**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 5		288	**$ 19,062.50**	$ 19,062.50	$ 19,062.50	$ 19,062.50	$ 19,062.50
Preferred Class B							
Series 1	BMO E	10,000,000	**$ 2.25**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 2	BMO U	10,000,000	**US$ 1.6876**	US$ 1.6876	US$ 1.6876	US$ 1.6876	US$ 1.6876
Series 3	BMO F	16,000,000	**$ 1.3875**	$ 0.93145	–	–	–
Series 4 (a)	BMO G	8,000,000	**$ 0.8966**	–	–	–	–
Series 5 (a)	BMO H	8,000,000	**$ 0.99**	–	–	–	–
Series 6 (a)	BMO I	10,000,000	**$ 0.626019**	–	–	–	–

(a) The Class B Preferred Shares were issued in February 1998 for Series 4 and 5, and in May 1998 for Series 6. For these issues, dividends declared in fiscal 1998 were for a partial year.

1999 DIVIDEND DATES

Common and Preferred Shares Record Dates	Preferred Shares Payment Dates	Common Shares Payment Dates
February 5	February 25	February 25
May 7	May 25	May 28
August 6	August 25	August 30
November 5	November 25	November 29

The Bank Act prohibits a bank from paying or declaring a dividend if it is in contravention of capital adequacy regulations. Currently, this limitation does not restrict the payment of dividends on the Bank's common or preferred shares.

MARKET FOR SECURITIES OF THE BANK

The common shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta, Vancouver and New York stock exchanges, and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, London, England ("London Stock Exchange"). The preferred shares of the Bank, with the exception of Class A Series 5, are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges.

DISTRIBUTION OF COMMON SHARES

As at October 31, 1998

Canada	90.6%
United States	9.2%
Other countries	0.2%
	100.0%

Registered shareholdings by geographic region based upon the residency of registered shareholders and declarations of beneficial ownership by depository participants.

RESTRAINTS ON OWNERSHIP OF SHARES UNDER THE BANK ACT

No person or group of associated persons may own more than 10% of any class of shares, and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

SHAREHOLDER ADMINISTRATION

The Trust Company of Bank of Montreal, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, The Trust Company of Bank of Montreal and Bank of Montreal Trust Company serve as transfer agents and registrars for common shares in London, England and New York, respectively.

For dividend information, change in share registration or address, or to advise of duplicate mailings, please call the Bank's Transfer Agent and Registrar collect at (514) 877-2500, or write to: The Trust Company of Bank of Montreal, 129 Saint-Jacques St., B Level North, Montreal, Quebec H2Y 1L6.

For all other shareholder inquiries, please contact Shareholder Services at the Corporate Secretary's Department, 21st Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

SHAREHOLDER DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common and preferred shares to reinvest cash dividends in common shares of the Bank without the payment of any commissions or service charges. Shareholders of the Bank may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Shareholder Services.

DIRECT DIVIDEND DEPOSIT

Shareholders may choose to have dividends deposited directly to an account at any financial institution in Canada which provides electronic funds transfer facilities.

INVESTMENT ANALYSIS AND RESEARCH

For information about Bank of Montreal or to obtain supplemental financial data, please contact Investor Relations, 18th Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

Bank of Montreal is covered by the equity research departments of major Canadian and U.S. investment dealers.

GENERAL INFORMATION

For general inquiries about company news and initiatives, or additional copies of this Annual Report, please contact the Public Affairs Department, Bank of Montreal Tower, 55 Bloor Street West, 4th Floor, Toronto, Ontario M4W 3N5. (On peut obtenir sur demande un exemplaire en français.)

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, February 23, 1999 at 9:30 am (Atlantic Time) at the World Trade and Convention Centre, Halifax, Nova Scotia, Canada.

Visit Bank of Montreal on the Internet:
www.bmo.com or **www.mbanx.com**

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